



Sir Terry Leahy

Sir Terry Leahy, who is 50, was appointed Chief Executive of Tesco plc in March 1997. He received a Knighthood for services to food retailing in the 2002 New Year Honours.

Born on 28 February 1956, he was educated at St Edwards College, Liverpool and then went on to the University of Manchester Institute of Science and Technology where he gained his BSc (Hons) in management sciences.

Terry joined Tesco in 1979 as a Marketing Executive and was promoted to Marketing Manager in 1981.

From 1984 to 1986 he held the position of Marketing Director for Tesco Stores Ltd. He was appointed Commercial Director of Fresh Foods in 198, and appointed to the Board of Tesco plc as Marketing Director in February 1995.

He is a Director on the Liverpool Vision Regeneration Board, and Co-Chancellor of Manchester University.

Married with three children, Terry enjoys sport, reading, theatre and architecture in his spare time.

Serving customers

by Sir Terry Leahy

Chief Executive, Tesco plc

Good morning - and thank you very much for inviting me.

I'm delighted to be at Campden, a remarkable institution and the largest of its kind in the world. It is also a centre of knowledge and of trust - priceless assets for the modern economy.

It is a pretty sobering thought for me that at about the same time that you were starting this series of annual talks, I was starting out as a graduate trainee at Tesco.

27 years later, I'm delighted to see that you are still going strong - and I'm, well, still going. I leave you to judge which has stood the test of time better.

One of the recurring themes in the lectures over the years has been that of change - and it is change that I am going to talk about today too.

I am not going to talk about it from the point of view of legislation, or science or technology - there are many of you here who know much more about that than I do.

But what I do know a bit about is understanding and serving customers.

So, I am going to start by saying something about how customers' attitudes are changing - and what that might mean for us all.

I am going to argue that if we listen to what customers are telling us, we can achieve far more in the field of health and nutrition than we will ever achieve by regulation or government diktat.

I am going to argue that by following customers we can achieve far more for local and regional producers than by 'Buy British' campaigns alone.

In short, I am going to argue that customers are the most powerful agents of change there are - and that by working with them, we have some very exciting opportunities for changing society for the better.

Understanding customers

In a business like ours, which is now in 13 countries from Hungary to China, we serve - and employ - people from a huge range of cultures, traditions and tastes.

But varied though our customers are, they have some things in common.

For example, as their lives get busier, so they want us to keep things simple. I believe that opportunities for growth will increasingly go to those companies which make life easier for customers and save them time, not bombard them with ever more choice and ever more complicated options.

Trust is something that is becoming more important to customers too. As the world shrinks, but people's lives become more complicated, so customers will turn to brands and products they know and trust. On the one hand, this will mean opportunities for very local services or goods which people are able to see or touch or judge directly for themselves. On the other, it will mean the development of global brands.

And it is quite clear that perceptions of trust are increasingly being shaped not just by price or choice or convenience, but by issues like health, the environment, and social responsibility.

Of course, customers still want us, above all, to provide a good shopping trip. But they also want us to be good neighbours in the communities we serve.

They still expect exotic fruit and vegetables, but a growing number of people want to know that they are sourced ethically and sustainably.

They still want to be able to have their nectarines and pineapples from around the world, but they also want to be able to buy local cheeses and sausages.

They want healthy foods and they would like us to promote healthier products. They want us to be part of their local community, perhaps by supporting local sports teams or charities, or by providing more jobs. They want us to cut down on packaging and to help them to recycle more.

Customers are more interested in these issues than ever before, and the media and the internet give them the tools they need to make more informed buying decisions. So in the battle for trust, there is no doubt that ethical considerations increasingly weigh in the scales alongside economic ones - which is of course exactly how it should be. This is by the way an idea which we ourselves tried to capture nearly ten years ago when we set out the following statement as one of our two core values: 'Treat people how you like to be treated'.

I think our research is telling us something else interesting too.

It isn't just that our customers expect *us* to do the right thing. They look to us to use our reach and influence to help *them* to do the right thing too - to help them lead the kind of lives they want to lead.

I believe that this is something very powerful and exciting. And because of the millions of people who pass through Tesco each week, I believe that if we can meet this demand, we can be the engine of great behavioural change.

Nutritional labelling - changing behaviour

The best and most striking example of this is the way in which our new nutritional labelling scheme is driving changes in customer behaviour. The results are quite remarkable, and I would like to share some of them with you.

But first a brief bit of history.

Following a lot of research, we went for a labelling scheme which sets out simply and clearly on the pack the percentage which a product contains of the guideline daily amount (or GDA) of calories, sugar, fat, saturates and salt.

Our first GDA sign-posted products went on sale in April 2005. A year later, we had got them on to 2,000 Tesco products. By Spring 2007, we should have GDA labelling on all 7,500 eligible Tesco products - much earlier than we had originally thought possible and we are the only supermarket in the world to do this.

Some of you might remember that there was a bit of argy-bargy over whether we should use our GDA scheme or a traffic light system. Research showed that our approach came out on top with people saying that they found it more useful than the traffic lights.

But more to the point, the results speak for themselves.

We compared weekly sales eight weeks before and eight weeks after GDA signposts were added. This is what happened.

Take sandwiches.

Over that period, sales of standard salmon and cucumber sandwiches fell by 30 per cent. Our Healthy Living alternative - with far lower saturated fat and salt - rose by 85 per cent.

Sales of standard prawn mayonnaise sandwiches fell 37 per cent. Healthy Living prawn mayonnaise were up 46 per cent.

The same pattern emerged with ready meals.

Sales of salmon en croute, which, though delicious, has a high percentage of GDA for saturated fat, were down 29 per cent.

Sales of peppered steak rosti bake with similarly high saturated fat: down 26 per cent.

But take vegetable curry - with a far lower fat and saturated fat content. Sales *rose* by 33 per cent.

The same picture emerged with salt content.

Sales of products with a high salt content fell by over a third. Sales of products with a lower salt content rose by some 20 per cent.

What does this tell us?

First, that something pretty remarkable is going on. These are not marginal changes. In my experience, a shift in the market of this size over such a short period is extraordinary.

And bear in mind that these are still early days, so this has huge implications not just for health and nutrition, but also for the food industry.

I believe it also tells us that you are much more likely to bring about major behavioural change if you harness the power of consumption rather than fight it.

For how has this change been achieved? Not by government nagging. Not by diktat. But by trusting customers and giving them the tools to do the right thing for themselves. I have always thought that working with the grain of human nature is an altogether more effective way of bringing about lasting changes in behaviour, and the early results of our nutritional labelling scheme seem to me to be a powerful endorsement of that view.

Product improvement and promotion

And there is more that companies like mine can do directly to enable healthier diets.

Over the last year, for example, we have cut back on salt in over 500 of our most popular products, reducing levels by 30 per cent in canned soup, 25 per cent in baked beans, and 10 per cent in bread. As a result, we have taken out over 50 million teaspoonfuls of salt from our customers' diets. Our priority for this year is to reduce salt further in the ten priority areas identified by the FSA.

We have also cut fat levels in 125 products, saturated fats in 143, and sugar levels in 53. And there is much more to come - this year we will be reviewing another 2000 lines to see whether we can make them healthier.

We have been doing more to promote healthier products too. Fresh fruit and vegetables had over 230 separate promotions last year, with two-thirds of our lines being promoted at least once. By contrast, only 1 in 5 of our processed food lines were on promotion.

The result? Sales of fruit and veg rose by more than 13 per cent last year. And I'm glad to say that the biggest increases were among our least well-off customers.

Healthier lifestyles

Better labelling and healthier food are helping to tackle one end of the public health challenge. But healthy lifestyles are about more than what we eat. Busier working lives make it harder to carve out time to exercise. There is less sport in schools and much more time spent sitting down in front of screens, where sometimes the most exercise that seems to go on is a hand moving from a plate to the mouth.

But isn't this a task for Government? What can a company like Tesco do?

Well, because our customers trust us to try to help them and because of the number of lives we touch, I think the answer is quite a lot.

For example, in the run-up to the London Olympic Games, we have said that we are going to help get 2 million people running, cycling or walking in events that we will organise and sponsor. I reckon I'm safe in saying that that will be one of the biggest contributions that anyone will make in helping to get Britain fitter.

Making sure that children have a healthy start in life is crucial for the long-term well-being of the country. No one can look at the figures on childhood obesity for example and not be concerned. So, one of the things we are doing is launching a new project with the Pre-School Learning Alliance to help parents and children in some of the UK's most deprived communities make healthier choices about eating.

Another way we are helping is to encourage more young people to play sport and take exercise. Through our Sport for Schools and Clubs programme we have given away enough vouchers to provide the equivalent of 50,000 coaching sessions.

We have also launched a new on-line health hub, giving customers practical information on how to eat more healthily and lead more active lives.

These strike me as being good examples of where we can use our scale and reach for good, drawing in hundreds of thousands of people to help them to live more healthily.

Helping local producers

I said earlier that customers' attitudes continue to change, and one of the changes we are seeing is a growing demand for local produce.

It is important to be clear what the research says about this. It does *not* say that there are large numbers of people for whom the 'Britishness' of their food is the most important thing there is.

But what there does seem to be is growing interest in 'local' produce and seasonality.

We already stock over 7,000 local British products. We have more than 50 speciality British cheeses, for example, and 12 small suppliers of regional sausage lines. And through initiatives like the Tesco Cheese challenge we have helped take a local product and put it onto a national stage.

But we want to do more and to make a renewed effort to increase the amount of local sourcing. So we will roll out to all parts of the UK the very successful local buying programme we have pioneered in Scotland, where we have more than 100 local suppliers providing us with 1,000 products.

We are also going to make it easier for small suppliers to tap into Tesco. We know that a local producer might find it daunting to know where to start with a company as large as Tesco. Therefore we are going to host a series of open days in every region for small suppliers to come in and meet our buyers.

We are going to introduce regional counters in our stores and better on-pack labelling to highlight local produce - we've already discussed how powerful a tool labelling can be. And we have said that we will invest in more promotional activity to encourage people to buy local products when they are in season.

We have to be realistic - most people are still going to want to be able to buy fresh fruit and vegetables all year round, and for health reasons we shouldn't discourage that.

But there are certainly opportunities to increase sales of local apples, soft fruit and vegetables, building on the work we have already done to help British producers increase their production and grow their market share.

As an aside, however, I wouldn't want this to lead to some kind of back-door protectionism. Providing overseas producers meet the very high standards we expect of British ones - and at Tesco we insist they do - shouldn't they be treated equally?

Surely we don't want to take the view that small local farmers from, say, Kent are good, while small local farmers from Kenya are not. Don't we want to encourage and support excellence wherever we find it?

The example of our rose growers in Kenya or the growers of our bananas in Dominica is of course a reminder of how complex it is to strike the right ethical balance in a global market.

When I travel to parts of the developing world to see some of our suppliers, I can see very clearly how trade brings great social benefits. Whether I am in China, South Africa or India I find a universal desire for a better life and a great welling up of energy and innovation - and there is no doubt that global trade has helped make this possible and drive it forward.

By the same token, I am sure that if you are one of those who looks for the Fairtrade label on your tea or coffee, you will rightly think that you are doing a small bit of good for poor farmers in the developing world. You wouldn't want to deny them the chance to benefit from the opening up of markets and the chance to boost their standard of living.

Yet of course all these goods have to be transported to the UK and then driven along our congested roads until they make it onto the shelves in British supermarkets. To some extent, they will also be goods which might be displacing British-grown products.

So how do you weigh social and economic benefits to farmers in the developing world against some cost to the environment and some potential loss to producers in the developed world? The truth is that there aren't always neat and tidy answers, and we have to do the best we can to strike some kind of balance which customers and society at large will see as being fair.

Food safety

Now, I couldn't come to Campden Day and not say something about food safety.

Here again, things don't stand still.

Companies are sourcing products and ingredients from new markets on the other side of the world, where attitudes towards food safety can be very different from what we find in the UK.

Manufacturers are having to respond to changing customer demand by developing new products or employing new processes, both of which can raise food safety issues.

Over and above this, we will all face new health challenges - just as we have had to respond rapidly to Sudan 1 or avian flu, so there will be new problems, which we can't yet predict, with which we will all have to cope.

For Tesco, food safety is the absolute rock on which our relationship with customers is built. They will only shop with us if they trust us to provide them with safe and wholesome food.

Let me put the job of food safety at Tesco in perspective.

In the UK alone, we sell thousands of Tesco own label food products which we buy from 900 suppliers operating from sites in 51 different countries from every continent on the globe, except Antarctica that is.

Every week our customers require 4.6 million chickens, 45,000 lambs, 20,000 cattle and 120,000 pigs, and everyday, somewhere in the world fruit, vegetables and flowers are picked for us.

Some of our suppliers of course have production processes that are highly automated. Others - for example making sandwiches for us - are still doing things by hand and with 400,000 or so sandwiches being sold per week, that's a lot of hands.

So you can see why food safety has to be built right into the heart of our business. At one end of the spectrum, that is reflected in the fact that it appears in the famous Tesco Steering Wheel with which we run the business. To give a more down-to-earth example at the other end of the spectrum, the very first thing that any one of our senior managers has to do when they go and do their annual week working in one of our stores is to take a test on health and safety.

Saying that safety is important is one thing. How do we deliver it in practice?

Well, it's a big responsibility, and that's why, in the UK alone, just for food, we employ a technical team of some 200 specialists, dedicated to ensuring the safety and quality of our products. If our people are key, so are our systems and processes. These are the spine on which everything depends.

Our technical managers work closely with our partners in the supply chain - whether that is farmers, manufacturers, or the distribution network - we have built up a multi-layered system of checks and balances.

We start with a stringent technical approval process which all our suppliers must meet before we will list them. We work with them to make sure that they have proper internal audit checks in place, and that they have systems to ensure full traceability so that we are able to respond immediately if we identify a risk. To build another layer of security, we make sure that they are audited by independent parties.

We have specialist surveillance teams which carry out their own testing programme, independent of our suppliers and indeed of our own category staff. They buy products in store and have them tested in accredited laboratories on our behalf. Last year, we tested 16,700 samples as part of this surveillance programme.

Finally, to have one further level of scrutiny, we carry out our own unannounced audits of our suppliers, the scale and thoroughness of which is unique in the industry.

In store, we have very simple routines and training in place to deliver food safety, backed up by auditing to maintain high standards. We also have systems which can swing into action in case of a food scare.

Take Sudan 1, which caused the UK biggest ever public recall. Within a few hours of knowing about the problem, we had taken all affected products off of the shelves. Within 24 hours, we had reformulated the bulk of our affected lines and the got them swiftly back on sale.

I mentioned partnership earlier, and our technical specialists, in whom we make a big investment, work with government at all levels, including the EU, the FSA and local authorities, and also with academics, trade bodies and other experts.

As well as trying to make sure that our systems are as rigorous and independent as possible to deal with current food safety issues, we also spend a lot of time looking out to see what challenges might be coming up on the horizon.

To help us with this, we have set up a panel of independent experts to advise us on possible emerging trends. We have drawn them widely, so they have expertise in a broad range of areas including toxicology, genetics, medical microbiology, animal health and organics.

If good systems, rigorously policed, are the backbone of all that we do on food safety, we have also learned the importance of good communications to our customers. Clear, simple, timely communication in the event of a food scare is vital to retaining trust. We do that with leaflets in store, with advertising, with making sure that our staff are given the information they need to answer customers' questions.

There is one other guarantor that we will always try to do the right thing - our brand. It's very simple: companies with a big brand simply have to do the right thing because they have too much to lose from doing the wrong thing.

Here is something of an apparent paradox - the bigger a brand becomes, the more sensitive it is to public opinion. A small or unknown firm might try to cover up a mistake, and might well get away with it. Global brands are obviously powerful - but there is something even more powerful than them which keeps them honest: customer power.

Conclusion

Since this series of annual lectures started, we have all seen enormous changes - in society, in business, in life-styles. I certainly couldn't have predicted what my business would be like now back in 1979.

But I know that change and competition have made Tesco a better business, which is why I am positive about the future when I think about the changes that lie ahead.

I can see great potential for us to tap into changing customer attitudes to help them to lead healthier lives. I can see opportunities for us to help local producers at home and abroad. I can certainly see an opportunity for us to harness the power of consumption to improve the environment.

The secret to getting this right is to go with the grain of human nature, not to cut across it. But if we can succeed in harnessing customer power, it is a mighty force - and I believe it can be a mighty force for good.

Thank you.