



LEADERSHIP

EVERY LITTLE HELPS: TESCO'S CEO TALKS BUSINESS

Speaking to London Business Forum in October, Tesco chief executive **Sir Terry Leahy** explained the principles behind his successful management of Britain's biggest retailer. Report by LBF.*

For anyone with an interest in business, Sir Terry Leahy needs little introduction. Under his leadership Tesco's turnover has quadrupled from £16bn to an anticipated £64bn, profits – at an estimated £3.2bn this year – are six times the £532m of when he started, and earnings per share have increased by more than three and a half times.

* More information on LBF is available at www.londonbusinessforum.com

So what makes Sir Terry tick? One thousand people poured into the Odeon Leicester Square for this London Business Forum event to find out. Leahy is widely regarded as a low-key leader but it is clear that he eats, sleeps, lives and breathes Tesco, which he joined after graduating from the University of Manchester Institute of Science and Technology (UMIST) in 1977.

Our two hours in the company of arguably Britain's most successful business leader kicked off with a

presentation from the man himself. When Leahy joined the board of Tesco in 1992, the market was dominated by Marks & Spencer and Sainsbury's. The recession of the early 1990s had hit Tesco hard and the consumer attitude at the time was summed up, said Leahy, by *The Times*: "If you want quality, shop at Sainsbury's, if you want price, go to the discounters: who needs Tesco?"

Tesco proved its critics wrong, overcoming its competitors in "one of the most remarkable turnarounds in British business history". Sir Terry revealed that ten management lessons have guided both him and Tesco during their meteoric rise:

1. find the truth;
2. audacious goals;
3. vision, values and culture;
4. follow the customer;
5. the steering wheel;
6. people, process, systems;
7. lean thinking;

‘You should look for the strengths in competitors rather than the weaknesses, or you miss a great opportunity to learn’

8. competition is good;
9. simple beats complex; and
10. leadership.

Finding the truth, argued Leahy, is essential to progress, no matter how ugly that truth might be when you find it. If you fail to identify what is really holding the business back then, he suggested, “You are condemned to go in the wrong direction.”

Once you’ve worked out the company’s starting point, “setting big, stretched targets for an organisation is very motivational, people are always capable of more than they think,” he told the London Business Forum. Recommending Jim Collins’ *Built to Last: Successful Habits of Visionary Companies*, Leahy explained that setting “audacious goals” unites people to share the company’s vision and values, embedding it in company culture: “You’ve got to paint a picture of the future that they really get excited about.”

A marketing man, Leahy always begins with the customer. “The customer is a great place from which to run a business,” he explained to event host and founder of the London Business Forum, Brendan Barns. Leahy emphasised that no one should be a slave to a business model because a successful business has to be prepared to “change completely as customers’ needs change”. This, he warned, can happen overnight.

Customers

The customer determines everything that Tesco does. When Leahy first joined the Tesco board in 1992 it needed to re-engage with customers. Despite benchmarking Sainsbury’s and Marks & Spencer, it still hadn’t quite succeeded in overtaking the rival retailers. Instead, Leahy explained, it looked “back to the origins of the business” reworking Jack Cohen’s ‘Pile it high, sell it cheap’ ethos and launching the Tesco Value line. This, Leahy explained, offered

something different from their competitors and succeeded in reconnecting with Tesco’s core customer base.

What was striking about Leahy was that whilst he is clearly visionary he also has an eye for detail. During his presentation, he emphasised that whilst it may seem “a bit tech-y,” thinking about any business in terms of people, process and systems, it is key to making big ideas happen. Detailed planning is essential to ensure that everyone knows their role and that any given project is scaleable. Leahy credits his own detailed knowledge of retail and Tesco to his long career in the same company, “I recommend people grow up in a business and really get to know it... you can absorb all the detail and it’s from that detail that you can then look out, look forward, and know the strategic direction to go in.”

Simplicity

Any change or new venture must also be done with simplicity in mind. Tesco’s motto, said Leahy, is “Better, simpler, cheaper.” Everything it does, Leahy explained, should be “better for the customer, simpler for the staff and cheaper for Tesco”. This culture of simplicity also encourages lean thinking. Businesses should always think lean because even in a successful business there is still “an awful lot of waste”. Leahy cited *The Machine that Changed the World* as a book which explores a great example of lean thinking from the Japanese car industry and Toyota in particular, which demonstrated how to find strength in weakness and compete with the industry giants of Detroit.

“A competitor is the best management consultant you’ll ever get and they’re free,” Leahy observed. He argued that you should look for the strengths in competitors rather than the weaknesses, or you miss a great opportunity to learn. Returning to customers, he said that competition is good for business

because it is also good for customers: “It empowers a customer who can make choices between businesses based on the service they receive, that’s a very empowering thing in a modern society, it’s a big part of democracy.”

Encouraging others to have ideas is for Leahy a crucial part of any leader’s role. “What is important is what a leader causes other people to do,” he told the London Business Forum. Creating other leaders throughout the organisation ensures not only its longevity but also motivates people to reach big targets.

He explained that he tries to “stay as quiet as possible at the centre of the business,” letting others lead while he focuses on what is important, stepping in only when necessary. “If you’re leading,” he advises, “don’t feel you need to justify your leadership role by being hyperactive: mainly you just get in the way of people.”

Moving forward

Leahy is confident that Tesco will be in safe hands when he leaves this March. He may have a reputation as a quiet leader but, he asserted, “Tesco stays, chief executives go.” He believes that he will be leaving a company that employs half a million capable people, all of whom have the experience and knowledge to move it forward.

Before jumping back into his hectic schedule, he asked the London Business Forum a question of his own: “Business should be – and is – fun. It’s creative, it’s competitive, you’re solving problems all the time, you’re trying to make things better. What can be more satisfying than trying to make things better?”