

## Argument analysis exercise

1. Read the article below and determine whether there is any reasoning in it. Note down your reason(s) for judging there is/is not any reasoning in it.
2. If there is some reasoning in it, summarise the argument(s) as succinctly as you can – aim for a few simple sentences that contain the reasons and conclusions, and label the reasons and conclusions as such. (Note that summarising the argument may be different to summarising the article.)

### Tesco Should Stay Out Of America

<http://www.fool.co.uk/news/comment/2005/c051124e.htm>

By Ed Bowsher (TMFArkle)

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Tesco (LSE: TSCO) has been a wonderfully managed business for at least the last ten years. Sainsbury (LSE: SBRY) has been thrashed, and Tesco has delivered rapidly rising profits.

However, Tesco should resist the temptation to enter the US market.

Much of Tesco's growth has been due to a virtuous circle in the retailer's UK business. Economies of scale are invested in lower prices, which drive higher sales. Those higher sales increase buying power, which then create an opportunity to cut prices still further.

What's more, Tesco has successfully launched non-food ranges, and built up Tesco Personal Finance in alliance with Royal Bank of Scotland (LSE: RBS).

That said, the competitive environment in the UK is getting tougher for Tesco. Costs are rising thanks to a higher oil price, Sainsbury is on the up, while William Morrison (LSE: MRW) will surely get its act together soon. That new environment had an effect on Friday's third-quarter update from Tesco. The company said that same store sales rose 5.5%, which is better than many British retailers, but still below the 7.5% figure a year earlier

Tesco's management has plenty to do in the UK, and the company is also busy in Asia and Eastern Europe. Indeed 54% of the company's floor space is now outside the UK. The international business appears to be performing reasonably well; same

store international sales rose 4.4% in the first half. However, maintaining that kind of growth will be a challenge. Worryingly, the company gave no number international same store sales figures in this morning's update.

What's more, the US is very different from Tesco's current international markets. Tesco has prospered overseas by investing in emerging market countries with immature retail sectors. But a US move would be much more challenging. For starters, no UK retailer has ever done well in North America. Sainsbury is one of many failures.

And the US market is getting ever more competitive as low-price leaders Wal-Mart (NYSE: WMT) and Target (NYSE: TGT) continue to expand. One US operator, SuperValu (NYSE: SVU) is performing poorly, while Albertsons (NYSE: ABS) is having such a tough time, it's put itself up for sale.

Indeed, Tesco has been cited as a possible buyer. Albertsons, with an enterprise value of \$15.5bn (£9bn), would be a large morsel for Tesco to digest. It's asking a lot for Tesco management to turn Albertsons around, compete with Wal-Mart, and continue to perform in the UK, Asia and Eastern Europe.

Tesco's other mooted US takeover target is Meijer, a privately owned business in Michigan. It's smaller than Albertsons and appears to be doing better, but there's always a danger that sub-scale operators could be crunched by the big boys. And Meijer would still be an unnecessary distraction for Tesco.

In its UK home, Tesco needs to concentrate on keeping its costs down as oil prices rise. Abroad it needs to keep delivering same store sales growth. These challenges are more than enough for one company - even one with such a stellar track record as Tesco.

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