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## Tesco takes mobiles war to Carphone Warehouse

Supermarket plots instore phone shops as it notches up record profits of £3 billion

James Ashton and Matthew Goodman

TESCO plans to challenge the market leadership of Carphone Warehouse by opening new instore phone shops this year.

The supermarket, which will this week report record annual profits of about £3 billion, will have opened more than 100 shops selling mobile and land-line packages in its largest stores by next March. It intends to be open for business in all 210 of its Tesco Extra sites two or three years after that.

The move is part of Tesco's strategy to expand beyond traditional groceries, where sales growth has been slowing.

Although this week's results will show that the group is generating more than £1 billion in sales a week, it is looking at ways of shoring up its grocery business, such as making adjustments to its Clubcard loyalty scheme.

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However, it is Tesco's nonfood offering that has been making headlines. Last month, it announced plans to open 30 instore bank branches by the end of the year, offering savings accounts, insurance policies and credit cards.

Its newly-created retailing services arm, which also includes its online activities, aims to increase profits from £400m to £1 billion.

Lance Batchelor, head of Tesco Telecoms, sees a market for a nonsense retailer to help shoppers choose handsets and networks. "Consumers are very often confused by offers put in front of them," he said. "Some of the tactics are reminiscent of the used-car industry, they are very aggressive."

He said that Tesco was neck and neck with Argos in the prepay market but some way behind Charles Dunstone's Carphone. It is starting to move into contract phones with a pay-monthly service.

Tesco has an own-brand mobile-phone joint venture with O2 that has 2m customers. Batchelor thinks he can catch up with closest rivals Virgin Mobile and 3. "If we overtook them that would make us the fifth-largest in the market. That starts to feel like an appropriate market share," he said.

Tesco is also looking at a number of other ways to ensure growth. It is expected to announce plans this week to begin testing its Clubcard loyalty programme in Poland, Slovakia, Turkey and Thailand.

The scheme, launched in Britain in 1995, is in three overseas markets, but Tesco wants to increase its global presence. There are 12m cardholders in the UK and 7m in China, South Korea and Malaysia.

Clubcard is seen as a key weapon in the fight to maintain market share against revitalised rivals J Sainsbury and Wm Morrison, which have outperformed it recently.

Carolyn Bradley, UK marketing director at Tesco, said: "We think that in this market, loyalty is critical."

She described Clubcard as "an incredibly powerful" tool to keep shoppers coming back.

City analysts expect Tesco to unveil profits of £3 billion on sales of £54 billion. For the full year, like-for-like sales are expected to be ahead by 3%.

Tim Attenborough, analyst at Exane BNP Paribas, said: "For Tesco, the important thing to look at is how well positioned they are strategically to cope with the next 12 to 18 months."

Meanwhile, Carphone will this week spell out how it intends to press ahead with a demerger of its Talk Talk broadband arm from the retail side – but not for at least 12 months.

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Nasdaq	1,368.36	↑ 0.98%
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