Buffett Takes Stake

Tesco’s U.S. Beachhead

In the shadow of a military air base 60 miles east of Los Angeles, backhoes clear an area the size of 80 soccer fields. Behind a wire-mesh fence, Britain’s largest retailer is building the command center for an invasion of the U.S.

Tesco Plc plans to create a U.S. convenience store brand, spending as much as 250 million pounds ($490 million) this year to open stores in Southern California, Phoenix and Las Vegas, according to people familiar with the situation. The retailer’s expansion has attracted billionaire Warren Buffett, whose Berkshire Hathaway Inc. snapped up 177.8 million Tesco shares, a 2 percent stake, after the retailer announced its plans last February, according to Berkshire filings. “It’s going to face some real hurdles because it’s a brand-new market for them and one that is extremely competitive,” says George Whalin, president of Retail Management Consultants in San Marcos, California.

The U.S. has been a graveyard for other British merchants. J Sainsbury Plc, the U.K.’s third-biggest food retailer, sold Shaw’s Supermarkets Inc. for $2.48 billion when it abandoned the U.S. in 2004. Marks & Spencer Group Plc dumped Brooks Brothers Inc. in 2001 for less than a third of the $750 million it paid for the clothier 13 years earlier. “Other retailers failed because they either expanded too quickly or didn’t do enough research on the market before entering it,” says Ted Scott, who manages the equivalent of $4.23 billion in U.K. stocks at F&C Investment Management Plc in London, including Tesco shares. “Tesco’s done its homework.”

Tesco has filed trademarks for three variants of the name Fresh and Easy for its outlets. The retailer rang up a record £39 billion in sales last year at its 1,897 U.K. outlets. Lawmakers and community leaders in the U.K. have criticized Tesco’s market domination, saying the retailer mirrors Wal-Mart Stores Inc. in its ability to crush smaller rivals. “It’s going to be a problem if they start opening stores all around us,” says Dave Rann, vice president of Super A Foods, a family-owned chain that has 12 outlets in Southern California. “We’re sprucing up our stores.”

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