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What Tesco Can Learn from Carrefour

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The news that Tesco has appointed Dave Lewis as its new CEO has prompted many in the industry to compare Tesco's tribulations with those of global rival Carrefour.

Both are huge multinational grocery businesses which have enjoyed immense success based largely on the hypermarket format; both have also leveraged that success into a series of international excursions and have, of late, found success increasingly elusive, necessitating a thorough overhaul of operations.

Carrefour has seen a modest performance improvement as a result of its recovery plan. Tesco, on the other hand, has seen figures deteriorate — reporting its worst U.K. comparable sales for years with its first quarter results in June. Why has Carrefour's plan seemingly paid off while Tesco's appears to have faltered?

TESCO LEADS ON PROFITABILITY

Tesco is a far more profitable retailer than Carrefour, even with these lackluster figures. Carrefour would be over the moon to have an operating profit of more than 5 percent: The French retailer has been prone to coming up with strategies that seem almost calculated to dent its profit margin. From its ill-conceived planet hypermarket revamp which saw up to $8 million thrown at each store to its massive, revenue-leeching investment in price reductions, these tactics have only had a dampening effect on profits.

Tesco has taken a measured approach to spending on store revamps, equating to $1.3 million per store (averaged across all formats, including less-costly convenience stores). Carrefour's second phase of big-box refurbishments post-planet has been at lower cost — although still more per store than Tesco.

Tesco's store revamps are driven by cool- and hard-headed economic considerations. Introducing a more compelling foodservice proposition, for example, will create destination appeal and increase shopper dwell time. Shifting to more profitable non-food categories and away from low-margin items like electricals will also boost the format's profitability.

Carrefour's domestic top line sales performance is far better than Tesco's, despite notable price deflation on branded products driven by the ongoing heavy price investment program currently being waged by major players in France.

Part of Carrefour's sales improvement can be attributed to it moving first on store refurbishments, having realized this was a key business priority all the way back in 2010. Tesco did not get started on its refurbishment scheme until 2012 — a year after Philip Clarke took the reins as CEO.

INTERNATIONALIZATION HITS THE BUFFERS

Both Carrefour and Tesco have been withdrawing from non-core international markets where they cannot see long-term returns. Both had neglected their core domestic operations and saw sales at home suffer. The difference is that Carrefour tried to take action earlier — even if the plan first unveiled in 2010 did not deliver the anticipated results. Tesco should have read the warning signs sooner and dropped non-core operations to refocus on the United Kingdom.

Carrefour is definitely ahead on its turnaround plan, with the program showing definite results, particularly at home. Even so, there is arguably little Tesco can actually learn from Carrefour other than the fact it should have taken action earlier — a lesson that is unlikely to be of any use right now.

Tesco's store refurbishments appear to be hitting the spot, with sales uplifts to match. However, they haven't been rolled out widely enough. Under new leadership and with this program in full effect, Tesco will need to begin to show an improvement in domestic like-for-like performance or less-favorable comparisons will continue.