



The Return Of The King

TESCO IS VERY MUCH BACK ON TRACK AFTER A TORRID COUPLE OF YEARS. NOW IT IS SETTING OUT ON ANOTHER JOURNEY, TO BECOME A GLOBAL LEADER IN RETAIL SUSTAINABILITY. **STEPHEN WYNNE-JONES** CAUGHT UP WITH TESCO CHIEF EXECUTIVE DAVE LEWIS.

The larger the ship, so the saying goes, the harder it is to turn, and when former Unilever exec Dave Lewis was appointed to head up Tesco in 2014, the retailer was mired in a deep accounting scandal, coupled with an inflated product portfolio that included everything from pet insurance to tablet computers.

Two years on, however, Tesco is flying, posting group like-for-like sales growth of 1.0% in the first half of the year, and on-track to deliver £1.2 billion in group operat-

ing profit by year-end. It also posted a 1.3% like-for-like increase in food sales over Christmas.

As it has recovered, so Tesco has shed itself of extraneous businesses such as Dobbies (garden centres), Harris + Hoole (coffee shops) and Giraffe (family restaurants) to focus on its core strength – grocery retail – with a focus on everyday pricing.

At the same time, however, the group hasn't been afraid of making big money acquisitions that add an extra dimension to its offering; industry experts are eager to

discover what the group's £3.7 billion acquisition of wholesaler Booker, announced just before *ESM* went to press, will have on the business.

As Shore Capital's Clive Black told this magazine late last year, "To use a cricketing metaphor, Tesco's management is now looking to bat more on the front foot – be more offensive, rather than defensive."

Strong Progress

Understandably, the man known as 'Drastic Dave' during his time at Unilever is delighted with the retailer's upward momentum.

"Our interim results showed a half of very strong progress," Lewis tells *ESM*. "It's a sign of a business that's now moving out of crisis, to one that's showing real confidence in its recovery."

In the group's UK and Ireland business, Tesco's half-year like-for-like sales "turned positive for the first time since 2011, and we saw our third successive quarter of like-for-like growth," he adds. "We said all along that we wanted to build a volume-led recovery, so it was encouraging to report UK volumes up 2.1% and transac-



Drastic Dove? Lewis was appointed CEO in 2014

tions up 1.6%. Internationally, volumes were up 3.3% and transactions were up 0.3%.

“At the same time, the feedback we’re getting from our customers, colleagues and our supplier partners is extremely positive. We’re significantly stronger today on all our key customer metrics, compared to the competition – as shoppers respond to the changes we’ve been making on service, range, availability and price.”

As outlined in its half-year statement, the retailer has focused first and foremost on the clarity of its consumer offer, dismissing the bells and whistles in favour of a price- and quality-led focus.

Its prices are now 6% lower than they were in September 2014 on a typical customer basket, and space allocated to private-label has increased 10% year on year – all part of a strategy of “putting the customer back at the heart of what we do”, as Lewis has stressed many times since taking charge. In addition, a comprehensive range review has led to a 23% leaner range of products.

Farm Brands

A masterstroke in the past year was the introduction of Tesco’s

‘Farm Brands’ initiative, the launch of seven exclusive fresh-food brands bearing the names of fictitious farms (a move that angered the National Farmers’ Union), which has seen an 80% repurchase rate from shoppers.

Lewis explains, “[Farm Brands] are a great example of working in close partnership with suppliers and producers for the benefit of customers.”

At the same time, Tesco has invested in its supplier base, introducing new payment terms that are among the most transparent in the industry: small to medium-sized players are ‘guaranteed’ payment within 14 days.

In 2014, as Lewis took charge, an internal audit found that just 51% of suppliers said that they were happy with the engagement that they had with Tesco. In its interim statement, the retailer happily pointed out that this rose to 76% this year, and as much as 90% in some categories.

“Over the last two years, we’ve made some fundamental changes to the way we source products and work with our suppliers,” says Lewis. “Our goal is to build deep, sustainable, trusted partnerships with

our suppliers, which enable us to serve shoppers a little better every day.”

As he points out, the three key priorities set out by the group in 2014 – regarding competitiveness, a secure balance sheet, and rebuilding trust – have delivered “a very strong performance. [...] All the key measures of customer, colleague and supplier feedback have improved fundamentally since 2014. Our overall brand-trust score is now at the highest level for four years.”

Across Europe, where Tesco has operations in the Czech Republic, Poland, Slovakia, Hungary and Ireland, Lewis notes that the “market in Central Europe remains very competitive, but we’re encouraged by the continued like-for-like sales growth we saw in the first half of the year.”

Rather than pull out of one or more of these regions, as has been suggested elsewhere in the press, the group has “harmonised more of our product offering and promotions across each of the countries we operate in ... [and] continued to invest in reducing prices for our customers.”

Sustainability

With its house now largely in order, Tesco is turning its attention to the issue of sustainability. Having previously undertaken initiatives to reduce the amount of waste it sends to landfill to zero (achieved in 2009) and reduced its CO2 emissions by 39.5% across its stores and DCs since 2006/7, Lewis and his team are now doubling down on the group’s environmental commitment, particularly food waste.

The recent Consumer Goods Forum Sustainable Retail Summit (see page 28) bore witness to the unusual sight of two close rivals sharing the stage, with Mike Coupe of Sainsbury’s joining Lewis on stage for a discussion on food waste. During his presentation (and, *ESM* suspects, to get a rise out of his rival), Lewis made a bold commitment to those present, that at Tesco, “by the end of 2017, no food that is fit for human consumption will be wasted.”

As he tells *ESM*, partnerships are key to understanding how this can be achieved.

“For us, the key is to try to build partnerships across the food chain to help reduce food waste wherever it occurs – upstream, in farms and production, midstream, in our own operations, and downstream, in households and with consumers,” he explains.



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Chief Executive Officer

“The first step, though, is measurement and transparency. It’s vital that we understand exactly where food is being wasted – and that’s why, at Tesco, we’ve been publishing our food-waste data for three years.”

In terms of dealing with in-store waste, Tesco has established a three-way partnership with FareShare and FoodCloud, businesses that distribute reusable food to charities and local organisations.

It has also engaged in promotional positioning that encourages consumers away from overpurchasing particular products – the number of multibuy promotions has been reduced by 27% year on year – thus seeking to reduce at-home waste.

“The big area of opportunity is helping customers to reduce waste at home,” says Lewis. “Two important areas of focus are around promotions and education. There’s

still too much volume-driving promotional activity going on that’s actually driving up household waste, and so we’ve been calling on manufacturers to look at changing this.”

Champions 12.3

Arguably, the largest food-waste project in which Tesco is involved, and in which it can define a leadership position, is Champions 12.3, a global scheme to address the UN’s Sustainable Development Goal 12.3: ‘By 2030, halve per-capita global food waste at the retail and consumer levels and reduce food losses along production and supply chains, including post-harvest losses.’

Lewis is the chair of this initiative, which counts in its coalition Nestlé CEO Paul Bulcke, Paul Polman of Unilever, Denise Morrison of the Campbell Soup Company, and a myriad of other industry and government representatives focused on the same goal.

“In our role as chair of Champions 12.3, we’ve been calling on other retailers and businesses to publish their own, independently assured food-waste data,” says Lewis. “The good news is that, at the Consumer Goods Forum in June, all the members agreed to sign up to Champions 12.3. If all the members follow through with their pledge, we can make a real impact.”

If Lewis can apply the same level of dynamism here as he has done in turning the good ship Tesco around, perhaps that 2030 goal won’t prove as challenging as you might think. ■