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SIMON LAFFIN **INDEPENDENT RETAIL ADVISER AND NON-EXECUTIVE DIRECTOR**

Lewis must find Tesco's raison d'être

You can't doubt the bravery of the new Tesco chief executive, Dave Lewis, who himself has called the sector "extremely tough". He says he already knows the grocer well, having been a supplier for 27 years. But past irritations about fighting for space against rivals and retailers not understanding manufacturers' brands will count for little when he gets down to running Tesco.

Despite having 12 countries to worry about, Lewis will still be judged largely on the performance in only one of them: the UK. The other countries will take up a lot of time and air miles but in the end they are a secondary issue to sorting out the UK, which accounts for two-thirds of group trading profit.

Lewis's predecessors have built many diversifications and distractions, from upmarket coffee shops to a poor man's iPad, but he needs to focus on the main game: grocery retailing.

The sector has responded to customer demand and provided more home delivery, click-and-collect and convenience offerings.

All these have added costs, without adding to sales by growing the market. Meanwhile, the discounters have increased the pain felt by the rest of the sector, seizing on the trend for local shopping, opening more stores and pegging prices.

The result has not been unique to Tesco, nor even to the UK. Most of the domestic problems facing Tesco are similarly troubling all the big supermarkets. Larger destination stores have lost sales and their profitability is shrinking by the day.

The declining profitability of larger stores is a sector-wide problem

"I SUSPECT HEAD OFFICE HAS SPENT TOO MUCH TIME ANALYSING CLUBCARD DATA, AND TOO LITTLE IN THE REAL WORLD"

Lewis has a business with a growing capital deployment and depleting returns. The capital base in big stores now looks to have been hugely overinvested, but how can you pull capital out of the superstore base? There aren't many buyers these days of secondhand superstore assets.

Lewis says he won't take "any hasty decisions". Yet the Tesco board did precisely that in cutting the interim dividend by 75% a week before he started, on top of previous cuts to capital expenditure. Maybe some of his new colleagues have pretty clear ideas about what he has to do.

The basic rule when you are under attack by discounters is to cut cash outflow, cut costs and then cut prices. The old rule when stores were underperforming was to ask store managers what they thought was going wrong. Given the depressing layout and state of many Tesco supermarkets, I suspect that head office has been spending too much time in Cheshunt analysing Clubcard data and too little time out in the real world in stores.

The Tesco chairman made a revealing comment: "Dave Lewis is a man who understands brands, and one of the things people are always telling me is that nobody knows what Tesco stands for." In its heyday in the 90s, this grocer wrote many of the rules of modern grocery retailing. Will Lewis not only revise these basics, but be brave enough to work out what modern superstores stand for today?