

Tesco faces long road to recovery



'Tesco has reported its worst performance in 20 years with another fall in sales', according to *Sky News* in January. So is it all over for Tesco? Or to paraphrase Mark Twain, are the reports of Tesco's

death greatly exaggerated?

Sales didn't actually fall. Group sales were up 7.2% and UK sales by 6.7%. Now a lot of companies these days would kill for those sort of growth numbers.

UK like-for-like sales were down by 0.9%, if you exclude petrol and VAT. Including these, UK like-for-likes grew by 3.4%. However, Tesco's UK sales per sq ft are projected (according to BarCap) to fall by 5.5% this year. Given inflation of 4% or so, it implies that volumes could be down by close to 10%.

Tesco's share price has taken a hit too. It is running at 325p, some 30% down on five years ago. And that's while sales have risen by 43% and profit before tax by 33%.

So what's happening? Tesco is underperforming in the UK market, which contributes two-thirds of group sales. There are a number of reasons for this, some strategic and some performance related.

Now isn't a good time to be in general retailing and Tesco has more non-food sales than Sainsbury's or Morrisons. I've written here before about the worldwide downturn in hypermarkets, driven by high petrol prices, more frequent shopping patterns and recessionary pressure on general merchandise.



A victim of its own success, efficiency has bred dullness in Tesco's stores

“TESCO LOST ITS CLEAR PRICE EDGE AND SEEMS CONFUSED AS TO HOW TO POSITION ITSELF ON VALUE”

According to BarCap, Tesco gets 45% of its UK sales from hypermarkets, against Sainsbury's 15%.

Tesco does seem to have lost the innovation that characterised its 'golden decade', a long run of outperformance from the mid-1990s until the mid-noughties.

The list of innovations, not all invented by Tesco, but executed the best by it, is impressive: Clubcard, Tesco.com, Value Lines, Finest, the Every Little Helps campaign, 'One in front', Tesco Bank, Dunnhumby, Extra, Express and Metro.

But when you look for innovations over the past five years, you find the cheap private-label products, the Big Price Drop and the ill-fated Homeplus. There must have been more, but I'm struggling to think of any.

Tesco lost its clear price edge and seems confused as to how to position itself on value. The stores are ruthlessly efficient, but a bit dull. Tesco may be a victim of its own long run of success, which can breed its own mythology of 'we do it so it must succeed'.

But really, the wonder of corporate life is not that companies underperform from time to time. It's how the best outperform for so long.

Tesco will recover its UK zest, but it may take a long time. And there's still that foray into the US. In the past five years, Tesco has invested nearly £1bn of capital there and lost around £650m profit.

Mark Twain also said: "It was wonderful to find America, but it would have been more wonderful to miss it."