

EXCLUSIVE INTERVIEW WITH SIR DAVE LEWIS

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SPEAKERS

Patrick Jenkins, deputy editor, Financial Times, in conversation with

Sir Dave Lewis, former group CEO, Tesco



In the latest FT Future Forum Sir Dave Lewis, the former chief executive of Tesco, talked about turning the retailer around, leading the group through the first Covid-19 lockdown and persuading investors to think about ESG. Here are the highlights of the event.

WHAT THE PANDEMIC TAUGHT US ABOUT FOOD RETAIL IN THE UK

Lewis said two lessons learnt from the Covid-19 pandemic were the resilience of the UK food supply chain and the adaptability of the food retail sector. He said of the onset of Covid: “There was a short-term difficulty but we quickly recovered.” With regard to adaptability, Lewis said: “It took us 25 years to get to 750,000 delivery slots a week and 10 days to double that to 1.5m.” The sharp increase was needed in order to supply food to “shielding and vulnerable” people.

WHY STORE-BASED BUSINESSES SUCH AS TESCO DID BETTER THAN TECH-BASED FIRMS SUCH AS OCADO

Online shopping doubled to 18 per cent of overall retail sales during the lockdowns. For its part Tesco saw sales more than double to 16.5 per cent. Lewis said store-based businesses did well as they “could change how they ran to ramp up delivery”. Tesco turned some of its 24-hour hypermarkets into warehouses to meet demand for deliveries and click-and-collect.

By contrast, capital-intensive businesses (Lewis did not name Ocado but Jenkins did) were not as agile. Lewis said: “They rely on a fully automated distribution centre. If you scope them for a certain demand, and demand spikes, there is a lead time you need to change the capacity.”

Lewis said store-based businesses had more of a focus on technology than they were given credit for. Their ability to run front-end ecommerce (in the same way as a digitally focused business) is significant. Indeed Tesco’s online ordering system is eight times the size of Ocado’s. It also has an algorithmic system to select the food that goes into delivery crates.

THE FUTURE OF GLOBAL SUPPLY CHAINS: THE LONG AND SHORT OF IT

Lewis said the pandemic had taught companies that a reliance on buying goods from “one or two places” had gone too far: “Where historically it had been a point of strength” it had become “a point of weakness.” It was striking, he said, that for all key foodstuffs – proteins, grains, pulses, fruit and vegetables – lockdown had led to shorter supply chains “to bring them closer to the market”.

This was especially important for the UK, which imports half of its food. Lewis said he had helped Henry Dimbleby, the UK food tsar, to think through the elements of a national food strategy which took in resilience and not just quality and the environment.

HOW MUCH OF A THREAT ARE AMAZON’S HIGH STREET STORES?

Lewis said that “given the size, scale and capabilities of Amazon”, it cannot be ignored, although since food retailing has such a low margin, Amazon’s model will struggle to “make any sensible payback”. He said its stores were based in urban centres with high rental costs; reliant on high-tech infrastructure which is expensive; supported by a significant number of employees, and stocked with a limited range of foodstuffs.

Also, Lewis said, consumer feedback suggested that Amazon’s offering was “ahead of what people want: it slightly unnerves them, which is never something you want to do with your customers”.

THE TESCO TURNAROUND: HOW LEWIS CHANGED THE COMPANY'S FORTUNES

In 2014, Lewis was hired from Unilever to turn around Tesco. How did he go about changing the business? His analysis showed a company with “immense capabilities”, “immense reach” and “a tremendous group of people who were brilliant at what they did”. But it was also £23bn in debt and overstretched geographically.

Lewis devised a two-track solution. First he recruited new staff, focused the workforce on a return to giving good service and changed the rules on suppliers (the previous way “was one-sided and unfair”). He then put to work a dedicated team to deal with an historical accounting scandal, improve the balance sheet and simplify the structure (above all sell the business in South Korea).

WHAT ARE THE STEPS FOR A LEADER DEVELOPING A TURNAROUND STRATEGY?

Lewis listed five:

1. Be brutally objective
2. Separate the aspects of the business that define its competitiveness (its “differentiating competencies”) and establish the three things on which success is dependent. Invest in them disproportionately.
3. Pick the right leadership team. It should have not only expertise but also energy and shared values.
4. Engage everyone with regard to the direction you set and the way you want to run the company. “Followership” is important.
5. Ensure that any changes are sustainable. Don't try to make things look better for just the next few months. Changes should have an effect long after you leave the company.

DID TESCO LOOK AT OTHER COMPANIES AS THEY PLANNED THE TURNAROUND?

Lewis said he drew on his time at Unilever, where he conducted several turnarounds. He said that in the late 1990s and early 2000s “there were two places you visited to look at the leading edge of retail”. One was 7-Eleven, the Japanese retailer. The other was Tesco, which was “pushing the boundary in a way very few companies were”. He tried to recapture that spirit: to focus on serving customers. As part of this he posed the question: “Why does this business exist?” This led Tesco to answer: “Serving Britain's shoppers a little better every day”.

HOW TO PERSUADE INVESTORS THAT ESG IS IMPORTANT: FOCUS ON THE WORD “DEPENDENCE”

Investors can be sceptical about environmental, social and governance factors, not least because they themselves have to meet short-term targets. How can chief executives persuade investors to think differently?

Lewis said his team presented shareholders with a view of Tesco “through an ESG lens”. Normally, he said, stakeholders asked: what is your company's environmental impact? He said, what if, instead of this, they asked: “What is your company's environmental dependence?”

This changed the conversation, Lewis said. He told shareholders: “Your investment in Tesco is dependent on our being a responsible producer in agriculture. If we are an irresponsible producer then, at some point, the very essence of what allows the business to exist will be negatively impacted.”

As the dialogue continued it became clear that Tesco needed to “be more involved in the health profile of products” on the shelves. Lewis told the shareholders: “It is not in the interests of your investment that the customers we serve become less healthy.”

As a result of the shareholder meeting, Tesco entered partnerships with organisations such as the World Wildlife Fund (to promote sustainable agriculture) and Cancer Research and the British Heart Foundation (“to think about nudges and interventions” to help consumers).

WHY IS SO MUCH PACKAGING STILL UNSUITABLE FOR RECYCLING? BLAME THE PANDEMIC

In 2016, Tesco told suppliers that it had 18 months to remove as much of the “hard-to-recycle” materials in its packaging. By the eve of the pandemic, said Lewis, “we got rid of pretty much all of the hard-to-recycle materials”. But Covid-19 set back these efforts as the trend for consumers to “buy loose” went into reverse, with people seeking food with protective packaging. Home delivery also meant that retailers had to go back to using more plastic bags. Despite this Tesco removed 1bn pieces of plastic from its business.

WHY AND HOW BUSINESS SHOULD HELP GOVERNMENT MAKE THE RIGHT DECISIONS

Lewis, who has been a source of advice for various governments, said: “I think it is incumbent on big business to have a responsible engagement with government. There is a role to play for business to provide objective, analytical input into the policy decisions the government takes.”

As an example, he said Tesco had provided data on where it sourced its food. This information was critical during the Brexit talks as the government did not hold “movement data” because of the borderless nature of EU trade. The figures meant that the policymakers could determine “the consequences of their decisions and weren’t just guessing”.

WHAT ARE THE SKILLS NEEDED BY FUTURE RETAILING EXECUTIVES?

Lewis said the main skills were the ability to listen and to take insights from listening. He said: “It’s easy to talk about being customer-centric but are you really customer-centric?” After listening, you adjust the business in a way that customers appreciate but which does not undermine the economics.

ANY REGRETS?

Lewis said he did not regret leaving Tesco when he did. “I think there is a tendency for CEOs to stay too long in their post.” He said he had completed the turnaround, stabilised the business and set it on its new course. If he had continued, he would have needed to stay for five more years to oversee the next phase, and 12 years in the business would have been “too long”.

He missed not seeing some ventures to their conclusion: “You always want to see the things you worked on come to fruition.” He also missed the camaraderie.

AFTER TESCO: WHAT COMES NEXT?

Lewis has taken a year off, which began in October. His plan has been to “work on things that are important” to him. He is currently chairman of the WWF board of trustees. He is not anticipating an early retirement. He said: “I’m not at all against doing another big CEO job if the right one comes along.” He added with a smile: “There will come a time when I’m no longer welcome in the home and I’ll have to go and get a job.”