John Deffenbaugh blog: Yesterday

Tesco has been in the news recently. We all used to shop there. No longer. The result is that their profit is down 47% compared to last year, and their market share has shrunk from 30.1% to 28.8% in only a year. This is nothing short of disastrous for such a company as Tesco.

Yet just yesterday they were top dog. Tesco's plight shows how a perfect storm can have disastrous consequences. A number of inter-related trends have hit Tesco: the end of the weekly shop, internet shopping, growth of small High Street shops, and competition from discounters. Not to mention the fraudulent practices of their own staff under pressure to deliver results (think the fiddling of waiting time targets). Tesco is largely to blame for their plight. Its board made three bad strategic calls:

International expansion – Tesco used the cash from its UK operations over the last 15 years to fund expansion overseas. All this has come to grief. The US operation alone was closed with a £2bn write-off. For those familiar with the Boston Box, Tesco used its UK 'cash cow' to fund its international 'question marks', which became 'dogs' rather than 'stars'. They fell into a well-worn trap.

Pricing – Tesco has lost its value proposition. It is neither perceived as offering unique value such as Waitrose and M&S, nor value for money like Lidl and Aldi. In the terminology of Michael Porter and his generic strategies, Tesco is 'stuck in the middle'. Sure, Morrisons, Sainsbury's and Asda are in a similar plight, but Tesco has more liabilities.

Big Boxes – Tesco is saddled with out of town superstores that no one wants to use. They tried to make them destinations for shoppers by adding Giraffe and Harris+Hoole, but shoppers still didn't come. What for 30 years has been their 'core competence' – in the terms of CK Prahalad and Gary Hamel – namely grabbing land and building these cathedrals to out-of-town retail worship, has now turned out to be a massive liability.

And the worst for Tesco is yet to come. NHS boards should take some serious learning from this.

First, the NHS is saddled with big boxes of its own, namely **district general hospitals**. Many of these are PFI new builds, cathedrals to an illness service that have cast in concrete patterns of care for 30 years. Nice idea at the time. The recently launched *Five Year Forward View* merely puts a toe in the water of the activities that will slowly move the NHS from an illness to a wellness service. As with Tesco, it will take some time for the perfect storm to hit the NHS big boxes, but it will come. The difference is that the tap of substitute demand will need to be turned off from what is still (for the moment) a free service.

Second, **technology** impact on the NHS is only in its infancy. Telecare and telemedicine are only a spec on the activity register, as was internet shopping 15 years ago. But as unit costs come down, customer familiarity increases, and integration takes place – eg Apple Watch and health app – we will see technology eating into established patterns of care. This will be in spite of the intractable structures of NHS professions and the inflexibility of staffing and funding streams

Third, **standardisation** in the NHS has not even started. If McDonald's can flip burgers the same way worldwide, why can't the NHS set up its drug trolleys the same way across all its services? Extrapolate this to many other services which can be standardised. This will require National to be put in Health Service, which with the fragmented market will be a significant challenge. Yet standardisation will come as commissioners, regulators and customers begin to question the variation that will be publically available through the internet.

This comes at a timely point with the publication of Monitor's guidance to boards on the development of their strategy. Tesco might have benefitted from this guidance. The lessons they represent, and the uncertainty of the context for health care provision, cause me to question the mantra of the '£8bn black hole'. So many things can happen.

As the Lex column of the *Financial Times* commented at the time of the launch of the Eurotunnel prospectus, its forecasts **"must be wrong (either too high or too low) simply because of the complexity and high risk nature of the investment"**. Let's make the future we want happen, rather than look back and reminisce for yesterday.

John Deffenbaugh 23 October 2014