Tesco plc
Presentation

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Winning in the New Era of Retail

Philip Clarke

CEO, Tesco

Welcome

Thank you all for coming. I would like to start this afternoon by introducing my fellow speakers at the front, here: we have Laurie McIlwee, our CFO, whom you all know; sitting next to him is Chris Bush, the MD of the UK; and on my very far left is Robin Terell, the Multi-Channel Director. We are going to be doing the presenting today. I will come back towards the end to wrap up and then we will take questions. We are going to focus our conversation on the UK today and particularly, how we are accelerating our investments in our core offer and in new channels. I wanted to take the opportunity to talk to you away from results meetings and help you understand better our long-term strategy. As such, much of what we say today refers to our ambitions on a multi-timeframe.

Winning in the new era of retail

Before I start that, what has been happening in retail? A lot has certainly been happening in Tesco for the past three years. It has been tough for consumers and it has been tough for the company. Our headline numbers are not where we want them to be, but with the change and with the challenge come great opportunities.

I have never seen such a pace of change in my 40 years at Tesco and it the retail world really does excite me. Our consumers are changing more quickly than ever before and like many offline retailers, we are facing some significant challenges; but we see many more opportunities for the long time and uniquely, we are placed to lead. We have sustainable sources of competitive advantage, built over decades; we have strong positions in convenience, online and digital; we have been testing the ingredients so that we can reinvest with confidence in our large physical stores. In recent years we have been developing and seamlessly integrating new channels, and we are all really pleased to share what is coming in the exciting years ahead and to give you a sneak preview of some of the things that you are going to see in 2014.

An unrivalled family of brands

We have built an amazingly broad range of brands and businesses across the UK, some over decades: Finest, Express, Clubcard, Tesco Metro; and Tesco Mobile is now in its tenth year. There have been some new additions in recent years, like Dobbies and Euphorium and Giraffe and Blinkbox and F&F. Some have been somewhat dormant for some time but are coming to the fore, like Healthy Living and NutriCentre. All are focused on providing the most compelling offer to customers.

We will be using our missions and propositions approach so that some of these will appear in just some stores and some will appear in all of them; all will be driven by customers and by what they say they want. We have always been a customer-focused business and we have given ourselves the opportunity in the last couple of years to develop the ingredients for this most compelling of offers.

Customer loyalty will be even more important in the new era

We have always been about focusing on customers and gaining their loyalty and this is going to be even more important in the new era of retailing. However, businesses which do not change with the times do not succeed and we did not change enough; not enough for our customers, at least.

Well, I am here today to tell you that we have changed. We are a social business now, we are a consumer-centric business; and every one of my colleagues knows the part that they have to play. Importantly, new technologies will enable more seamless connections. They will allow closer relationships and greater insights and allow us to provide greater rewards. We think customer loyalty will be even more important in the new era, rewarding experiences such as the Hudl or a great coffee, or chilled, healthy living ready meals, or Clubcard Fuel Save. There will be more of that from Chris later.

What does Tesco stand for?

Tesco is for everyone

I often get asked, though, 'What does Tesco stand for with all this stuff you have?' Well, 'Love Every Mouthful', 'Every Little Helps' and 'Making Moments Matter' are all part of a tapestry, but I prefer to summarise it this way: Tesco is for everyone. It means delighting customers, whoever they are, wherever they are, whenever they want. It means delivering outstanding value; it means ease and simplicity; it means meeting everyday needs like no one else can. Tesco is an everyday needs business and although we are for everyone, we aim to deliver this in the most tailored and the most personalised way that we can. And when we get it right, we will be loved and respected by customers in this seamlessly connected world.

Better is better

Now, I am a realist and I know that the way stakeholders measure businesses these days is different. It changed in the wake of the global financial crisis. Words like 'biggest', 'best', 'first' and 'most' were not what was admired anymore. I think, for everybody, it is simple: better is better; and for a business which has a big footprint in people's lives, Tesco has to be better. If the past three years have taught me anything, it is that focusing on better, for colleagues and for customers, is what can make a business like Tesco great again. Just as Ian and Terry showed us, that is about the right blend of price, quality, range and service; but now with a twist, in an open, connected and social world. With 16 million active Clubcard customers, what an opportunity does this offer us?

What is changing?

Key points

You have seen the RNS, released earlier. This slide aims to summarise the key points that we have communicated and will be communicating. First, we are accelerating the growth in new channels: we are investing to ensure we emerge as winners in this new era. Importantly, we are going to allocate sufficient resources to deliver the most compelling customer offer today. Sharper prices, much improved quality, greater innovation for customers and a real focus on service everywhere: it is a customer-focused strategy and it will come together in many, many more stores as we go faster with our large store refresh programme.

Capital expenditure

Importantly, though, we are also being even more rigorous in the allocation of capital. We are cutting group-wide capital expenditure to be no more than £2.5 billion per year for at least three years and we are driving even greater productivity and overhead savings that we have before. The investments will be focused on three areas: the large store refresh programme, convenience and digital. Having tested the ingredients, we are going faster on the large store refresh programme. It is all possible because of the lower level of capital expenditure from the further reduction in new space, notably in Europe, Ireland and here in the UK. Importantly, we remain committed in the medium term to our financial framework: it guides us every day.

Christmas highlighted the trends within the industry

Performance statistics

There will be a few slides now on the industry and on the consumer. Christmas highlighted the trends we talked about in January about the market and how it was looking. We have never really shown you this level of detail before. Overall, it is true to say our performance was not where we wanted it to be, but look at the spread: 245% sales uplift in Blinkbox movies, 70% uplift in online clothing, 25% uplift in online general merchandise, a business we were trying to slow down in order to stabilise and improve its performance for customers and its financial performance. Online grocery, already a significant business for us with £2.5 billion of sales in the UK alone, is growing at 10%. Express convenience stores are up 1%. This strong growth in convenience is a trend you can see everywhere. Look at the large stores, though: down 3.1%.

Bonus facts

Here are few facts which are not on this page but which I found particularly interesting: online non-food was 20% of total spend at Christmas in the UK; the proportion of customers shopping three or more times in a week is up from 29% in 2009 to 49% in 2013.

Turning back to this issue of large, out-of-town formats under pressure from a combination of these factors and fuel prices, compared to pre-recession levels fuel prices at the pump are up 70%: modern stores, big stores need to be worth the trip.

These consumer trends have been building for some time

All of these trends were particularly marked at Christmas and although the pace of transition online was greater than we expected, the trends have been building for some time. From this chart looking at Kantar and two-year sales growth, you can see the trends; I do not feel I need to speak any more to them.

We have a high level of exposure to larger stores

At Tesco, however, we have a higher level of exposure to large stores. This table shows the breakdown of space for the largest retailers in the industry. As you can see, the two largest retailers are much more exposed to the large store effect, half of our space being in stores over 50,000 sq ft. Whilst it is similar to the number two, there are important differences for us. I will come back to it later, but the large store drag for us is exacerbated by being significantly over-spaced in consumer electronics and not helped by being short of space in clothing.

We have been clear about what we need to do for some time

Priorities

As I said at the start, this does not signal a need for a new strategy, but simply to go faster: to go faster for customers, to go faster to improve. Our priorities are clear: prices must get better and they must be more stable; the frivolous promotions must end and trusted ones should be in place; and that has to start now.

Quality: we must leverage our skill and our scale in ways that we have not before. We have a big plan to do that over the next few years. On range, our food teams, GM teams and our F&F team need to create, to innovate and to differentiate like never before. That is their task.

On service, I am proud to say we are leading 300,000 colleagues to a new standard of service in the UK and we are doing it by example. On loyalty, we are going to make much more of the Clubcard, with two particular elements: personalisation – which we will talk about later – and greater rewards for customers today.

Reinvention of large store formats

On the large store reinvention, every store will be complete in the UK by 2017; that is just in the three years. We will use the missions and propositions method that we have explained to some of you before and we will apply it to another 360 stores in the UK. Our GM transformation, anchored around family food, cooking and home, is already underway and will be complete by the end of the year. As if that was not enough, convenience will be better tailored: all stores are going to be refreshed by the end of 2016, which leaves Chris and his team with only another 1,360 to do. Added value services will be bolted on to Tesco.com, including, importantly, the Tesco personal current account, which launches this summer; it is in beta testing right now with colleagues. Those services will come together seamlessly, in a connected way, for our customers.

Building a Better Tesco

Robin will explain most of these things in more detail, but I hope from that long list you understand my excitement for the medium term for our customers. We are accelerating for them and that rate of improvement really does matter. Building a Better Tesco, which started two years ago, has strengthened the foundations, but now we must accelerate. This is how I am making Tesco better for customers; it is how I have been running Tesco.

We leverage our skill and our scale in ways others cannot

There are many reasons why I believe we will emerge as winners in the new era. We are uniquely placed to take advantage of the opportunities which it brings by leveraging our skill and our scale. I will not run through all of these, but I will pick out five of the most important.

Global sourcing

Global sourcing: we have sourcing hubs in 31 countries outside the UK. They are buying today £8 billion of goods. It has grown four-fold in three years; it is going to grow another two-fold in the next two. There will be better prices, better quality, more security and stronger ethics in our supply. That is also enabled by a world class supply chain: in the UK, we have 31 DCs, most of them less than 10 years old.

Global freight management

Global freight management: we are tracking our freight around the world, buying at the best prices to make sure the goods get here in the best condition, at the best price. We have achieved a 50-basis-point reduction in our cost of distribution in the last three years alone.

Online grocery business

Although Robin will talk more about the next point, the profitable online food business, it is £2.5 billion of sales in the UK; it is 300 locations; it is 3,250 vans; and it is 1.6million regular customers. We must leverage that more.

Strong own-brands

Strong own-brands: here in the UK, more than 50% of what we sell is from Tesco brands. Three of those, Everyday Value, Finest and F&F, have sales together of £4 billion.

Customer insight

I will just pick out one more capability: customer insight. Companies talk about big data; we know how to use it and how to make life better for our customers. We have 43 million Clubcard customers around our world. Then we have 2,500 data experts in 47 markets working on five continents. It is an extraordinary capability.

We will accelerate our rate of leverage with our new capabilities

Our medium-term goal is to leverage these strengths to create even more compelling offers for our customers, with four medium-term deliverables: the most compelling multi-channel offer; differentiated and added value services; multichannel leadership – everyday needs in one place – and importantly, a seamlessly connected and elegant experience. All of these are underpinned by the need for sharper prices, improved quality, stronger ranges and better service.

We have already taken important steps

We have already taken important first steps: Chris will describe to you in a moment the improvements we have made under the Building a Better Tesco plan. He and I know we have a lot more to do. We have already reduced our space investment from 2.5m sq ft at peak to 1.5m sq ft in 2013/2014; and we will open just 700,000 sq ft of new space in the UK under the Tesco fascia in 2014/2015.

We have transformed F&F. It gives us confidence that we can do it again in GM and that programme has already started: we have improved GM profitability in store, we have reduced losses online and we have stabilised and then improved our service. We have developed and trialled the key ingredients: Euphorium, Tesco Bakery Project, Harris + Hoole, F&F, our new counters, Click & Collect and Clubcard Fuel Save.

Customers are yet to feel the benefits of the emerging recovery

I have not seen such a level of change and sustained and continued pressure on consumers, though, in my 40 years of Tesco. The squeeze continues. There are signs of confidence in the UK economy in consumers, but they are not seeing it translate yet into spending power and least affluent customers and middle-income families are being forced to make choices. You know these facts, so I will not read them out to you.

The UK market is more competitive

I must, however, pay due credit to our competitors: many of them have done a great job. I admire their determination and I admire the way they have exploited their niches. I would pick out Lidl, Aldi and Waitrose in particular. We do not ignore them. Now we have strengthened our foundations, we are accelerating our own differentiated strategy.

Uncertainties about the future remain

Consumers are yet to benefit from the emerging economic recovery. The pace of transition of consumers to online is still unclear, although the direction of travel seems inevitable. The industry will remain intensely competitive. Competitors have set out their game plans; that is why we are going to increase the pace of ours.

We are going to lead the industry

We are going to lead the industry. We are focused on delivering a most compelling offer for our customers and we are retaining the flexibility to act as and when the needs determine. Having tested the ingredients, we are going faster. We are going to spend much less on new space. There will be a further net reduction, as I said, in new space, down to 700,000 sq ft. We are going to be the benchmark for multichannel service in the medium term.

First curve to second curve

As I look at this great industry of ours, I see clearly that we are moving to the second curve. Let me explain some more.

The first curve is Bricks & Mortar, retailing – it started nearly one hundred years ago, when Jack opened his first store, and then Tesco invested in stores, and so did others, and in own brands and loyalty. Seventeen years ago, somebody here – Terry Leahy – pioneered home shopping. That is the beginning of the second curve. The second curve is Bricks & Clicks. The second curve is not offline or online. It is not internet; it is the seamless connection of them both. Brands need to be accessible everywhere; they need to do it in a personalised way; they need to build advocacy through content; they need new and differentiated brands and services. That is our focus, but critically, they cannot forget the lesson that Jack taught us: it is about customers being at the forefront; that is what drives us in this second curve – the curve which is Bricks & Clicks.

Bridging the gap

I am about to close, but I think this slide is perhaps the most important. How businesses bridge this gap between the first and second curves is critical. It is all about balance. It is all about the customer, and anticipating what it is that they are going to need, and having judgments about these masses. Do nothing, and your business will slowly shrink. Make some tactical changes, and you can keep the business going for a while longer. Reinvent yourselves, and you have more of a chance of growth in the future. Combine the first, turn it into the second – Bricks & Clicks – and it will power growth in the medium term and the long term.

Strategic priorities

This is the reason Tesco has had just three priorities for the last two years: to continue to invest in the strong UK business, back in the core, which Chris will talk to you about in a moment; to establish multichannel leadership, which Robin will discuss; and then to pursue disciplined international growth, which Laurie will touch on.

I will return to talk to you again before questions. Thanks for listening, and I now hand over the Chris. Thank you.

Continuing to Invest in a Strong UK Business

Chris Bush

Managing Director, Tesco UK

Introduction

Thank you, Phil, and good afternoon everyone. You all know that we have made a significant investment back into the UK business since the launch of our Building a Better Tesco plan back in April 2012. In building this plan, we had one clear ambition, and that was to get back to leading the industry. That is something that I am incredibly passionate about achieving.

In the time I have with you this afternoon I would like to cover just two things. First, I will spend a short period of time looking back over the last two years, to let you know what we have been doing and to show you the foundations that I believe are now firmly in place. Secondly, I would like to spend the majority of my time looking forward and explaining to you how we are going to accelerate the pace of change to get us back to leading.

What does Tesco need to win?

I want to start by describing what I believe Tesco needs to do to lead in this new era. I strongly believe that our brand is unique. It is unique because we appeal and welcome all customers from all walks of life, all backgrounds and all demographics. I do not think anyone else can say that, and I do not think anyone else can do that. Simply put, to lead in the new era, we need to create the most compelling offer for each and every one of our customers, so that it is relevant for them individually.

The most compelling offer for customers starts by doing the basics of retail better than anyone else in the market. For us, that means sharper prices, improved quality, stronger ranges and better service. It means developing and adding value through other brands and services which, when pulled together, create a genuine point of difference for our customers. It is also about continuing to build on our strong leadership in convenience and online. It is about how we bring the very best of Tesco together in our large formats that make it worth the trip for our customers. Finally, and critically, to lead in the new era, it is about creating a seamless multichannel experience that can connect and engage customers with Tesco whenever, however and wherever they choose.

I am going to touch on this through my presentation, but I am going to leave our expert, Robin, to take you through the detail of the plan.

We began our journey to Build a Better Tesco in 2012

So that is the ambition. Before I take you through the exciting plans to achieve that ambition, I would like to spend just a few moments looking back. This is the six-point plan that we laid out in April 2012: Service & Staff, Stores & Formats, Price & Value, Range & Quality, Brand & Marketing, and Clicks & Bricks. I have to say that we had the busiest two years that I can remember in the 33 years that I have been with Tesco. As Phil said, our headline numbers are not where we would like them to be. But I know, our colleagues know, and our customers know that we are in a much stronger position now than where we were when we launched the plan two years ago.

Staff & Service

So let me take you through a few of the highlights, starting with Staff & Service. Leading on service is at the heart of our plan, and if we are to do that it was essential that we freed up our colleagues' time so they could focus on what really matters, and that is serving customers to make sure that their visit to Tesco is as good as it possibly can be. To do this we have invested over £200 million in payroll in 2012, and put more people back on the shop floor with a particular focus on fresh foods.

We have also invested in Making Moments Matter. This is our biggest ever service training programme, with over 250,000 colleagues taking part. It is about making sure we give them the skills but, above all, the confidence to go out and serve customers brilliantly.

On top of all of this, we have worked with our colleagues to reschedule over 300,000 hours across the day and across the week, so that the changing shopping habits of our customers can be matched by having the right people in the right place and at the right time.

For our stores, this has been an enormous change, and I am absolutely delighted and proud of the way in which our colleagues have responded to this. It is clear that we still have more to do, but the 40% improvement in customer satisfaction since 2012 would suggest that customers are starting to feel the difference and we are certainly moving in the right direction.

Stores & Formats

On Stores & Formats, we recognise that our stores need to evolve in order to meet the changing ways that our customers are shopping, and also to better represent what the Tesco brand stands for. We have made good progress, refreshing over a third of our stores in some way over the last two years. This is a lot more than just painting the walls or improving the lighting. This is a holistic approach to refresh, covering colleagues, service, range and brand, as well as the physical store environment. Customers have responded well, and it is clear from our research and the performance of our stores that they feel better about all aspects of the shopping trip.

You may remember that we showed you this slide at the interims. It shows that average sales, profits and margins were all up in the refreshed stores, and I am pleased to say that these trends have continued.

In terms of numbers of stores, the programme has been more focused on Express and our smaller superstores to date, but we have also spent a lot of time testing the ingredients which we believe, when pulled together, will create a compelling destination for our customers. These ingredients include an improved fresh food environment, a transformation in our GM ranges and merchandise, F&F clothing shops that really do wow customers, new health and beauty departments, Harris + Hoole, Euphorium Bakery, Giraffe – the list can go on.

Where we have brought these ingredients together in our three prototype stores – Watford, Purley and Coventry – customers have told us that the love the end results. Visits are up 10% in these stores, and both sales and profit have risen at the same time. We are very confident that we have got the right ingredients to make a difference to our big stores in the future.

Price and value

Moving on to price and value, we have taken a new approach to price. We are clear that we want our prices to be trusted, we want them to be stable, we want them to be logical, and, of course, we want them to be competitive. Other than the discounters, no one is doing a good job on stability of prices, and whilst ours have improved significantly, there is still much more that we need to do.

With the introduction of price promise, we have halted a long term decline in our price perception. Price promise has provided an instant reassurance to our customers that on fresh foods, on own-label and on branded products, they simply will not lose out at Tesco. Every customer perception measure on price has improved over the last 12 months. We have laid down what I believe to be a solid foundation for us to do more in the future and I will talk to you a bit more about that later.

Range and quality

Onto range and quality. This is an area where I am incredible proud of the work of the teams. Quite simply, we have put food right back at the centre of our business. It has been really great to see the pride, the passion and the inspiration that this has generated internally. We have done a huge amount of work on our own label products, and we are materially improved over 8,000 products in our core Tesco range, as well as re-launching three of our key pillar brand ranges: Finest, Everyday Value and Healthy Living.

With Finest, I think we have set a new benchmark for quality, and I am incredibly proud of the range. I could talk all day about our 28 day mature finest steak, our fantastic triple cooked chips, or indeed our tomato ketchup, which has transferred me from being a Heinz man all my life into Tesco Finest.

Horsemeat in four of our products shocked us all a year ago, and as a result we have made sweeping changes to our supply chain, including the introduction of industry leading authenticity testing. As a result of all the changes we have made, even despite this setback, we have improved our quality perception on fresh foods by over 6% in the last 12 months.

I am really pleased that the momentum is back in the buying teams. We have re-energised their hunger for product innovation, and to lead the market. They are enormously proud to have won 18 Q Awards for quality, and of being named quality retailer of the year for 2013 – the first time in nine years. Of course, the most important judges will be our customers, and they are recognising the changes too, with customer perception of our own label improving, and sales participation moving up as well.

Brand and marketing

Onto brand and marketing, I think here the most important change we have made is to put food right back at the centre of everything we talk about. Our ‘Love every mouthful,’ campaign has communicated our passion and commitment to food in a new and engaging way, both for customers and of course our colleagues. Let me share with you a couple of the examples of the ads that I think will bring this to life.

[Adverts]

Clubcard

Clubcard, of course, is such an important part of our brand. For me, it really is the jewel of the crown, and it is more important now than it has ever been before. We have continued to improve the scheme through developments, such as Clubcard Boost and personalised couponing, with customers' rating of its value and of its usability up 6% in the last 12 months. But what the Tesco brand stands for is much more on what we do on TV, or what we see in the print, and what customers experience in the store. In the DNA of our brand, we want to contribute to society, and to communities. We want to put in more than we take out, and I am incredibly proud of the work we do in this area. Whether it is collecting 10 million meals through our food bank collection program over the last 12 months, or collecting £10 million and donating that to Diabetes UK, the recent launch of our Eat Happy products, or how our colleagues spontaneously responded to the recent flooding across the UK, this for me is really the Tesco brand in action.

Bricks and Clicks

Finally and, looking back, most importantly, is probably Bricks and Clicks. Online is the fasting growing part of the business, and when I think about Tesco, I don't just think about 3000 stores, I think about the customers, and how we can serve them across all channels. We have an industry-leading grocery home-shopping offer, and we have strengthened it further, continuing to grow our share of what is the fastest growing channel in the market from a very strong base. Two years ago, our market share was at 46%. Today it has increased to 47%.

We have done this by listening to customers, and improving the offer to meet their evolving needs. For example, there are now over 190,000 delivery saver subscribers. One hour delivery slots are now available over 98% of the UK, and grocery Click and Collect is now in 232 locations nationwide. We have also focused on stabilising our online general merchandising operation, significantly reducing losses and improving the customer experience by extending the offer to 1,750 stores, through Click and Collect desks.

I believe that we have an exceptional foundation in place in all of our online channels, but we are clear that now is the time to accelerate, given the very obvious changes to the way customers are shopping in the UK.

Colleagues

You can see that we have achieved a lot, in what have been exceptionally challenging conditions. What we have achieved is a credit to our 300,000 colleagues, without whom none of this could be possible. Their belief and pride is backing the business, and it is backed because they can see we put both them and our customers right back at the heart of what we do. They are the best ambassadors we could possibly ask for, and a huge asset to Tesco, and will play a vital role as we move into the new era of retailing. Thanks to their efforts, our business is now set on stronger foundations, and we are more determined than ever before to focus and accelerate our efforts on creating the most compelling offer for our customers for the long term.

Accelerating our plans to deliver the most compelling offer for customers

Ambitions

Robin is shortly going to cover some of our plans for accelerating our path towards a true seamless multichannel experience. I am going to focus my time now on outlining some of the additional ambitions I have for Tesco over the coming years. These are longer term goals. I will also give you an indication of the changes you will see from Tesco in the next 12 months or so.

There are seven areas that I am going to cover in the next 20 minutes: Everyday low prices on the lines that matter most, product innovation and quality that delights, leading on service, inspiring general merchandise ranges, the best most relevant convenience retailer, destination stores that are worth the trip, and finally creating exceptional value through Clubcard.

Everyday low prices

I am going to go through these one by one. We will start with pricing. The pricing in the UK market has been too volatile for too long. As the industry leader, we can do more to drive the change. Today I am committing to lower, more stable prices on the products which really matter most to our customers. This is a structural change in how we will manage our pricing. What we have found is that while customers still value promotions, many of them do not work for customers in the right way – they are too complicated. This is an industry-wide problem that we need to solve.

What we intend to do is shift some of our promotional investment into putting more money into lower, more stable pricing. This does not mean that we will be stopping promotions, but what it does mean is that the promotions that we will offer will be more focused, more competitive, and more relevant for customers – genuine deals that customers can trust.

This commitment to better, lower, more stable pricing begins today, with an incremental investment of over £200 million, to offer everyday low prices on the products that matter most for our customers.

Of course, I do not know how the competition will respond to this change. What I do know is that our customers will not need to worry. Our continued determination to ensure our customers will not lose out on price will remain firmly underpinned by Price Promise. Whatever the response, the unique commitment of Price Promise on fresh foods, own-label and branded products means that we have got it covered for customers before they leave the store.

Product innovation and quality

Moving onto product innovation. Product is an area, as I said, that we have made a lot of progress on. Having replaced, renewed or improved almost every Tesco product in our range, we have put product innovation right back in the centre of what our commercial and buying teams do. We have hundreds of Food Technologists working on new product development every day, and practically every conversation I have with our buying teams involves some level of innovation.

This work, of course, never stops. It is now about continuous innovation and finding exciting ways to inspire our customers with new products, so that every time they visit our stores or go online, they can see something new, something inspirational. It is also about further building our trust, knowledge and engagement, helping our customers understand the lengths that we go to, to source the very best products for them. Having made significant improvements to the quality and innovation of our meat, fish and poultry last year, we are already applying the same level of innovation on produce, with a full and detailed review of our specifications, our quality and the taste. We will also continue to refine, renew and innovate our convenience food ranges. This is a key point of difference for customers when choosing which retailer to shop in on the high street.

Macro trends

As well as this continued improvement and innovation work, which is now hardwired into every category, we also have an ambition to really lead on those emerging macro trends. We know these macro trends are becoming even more important for customers, particularly in the areas of health, well-being, fitness and nutrition. I believe that we have really got our mojo back with food. We have made great progress. But I want us to go much further, and use our scale and our skill to become the industry benchmark.

Leading on service

Moving onto service. We are, as I said earlier, determined to be the leader on service, and we know from the work we have done so far that, where we invest in freeing up our colleagues' time to serve customers, our shoppers really notice the difference. We will continue to implement further productivity improvements in such areas as our supply chain, and replenishment techniques in order to support further investment. This is the theme that I will return to shortly.

In terms of additional investment, we are going to focus on three specific areas in the future: Our service points in store, our fresh food, and our grocery home shopping. I would like us to have the very best butchers, the best fishmongers and the best produce experts in the industry. I would like to give them the skills and the confidence that they need to do a fantastic job for our customers. The good news is that on fresh foods, we have already started this journey, by connecting our colleagues in-store with the supply chain. We have found that by doing so, we have really ignited their passion for the products that they sell in stores.

For instance, we have taken our fishmongers to see how the fish they sell is caught. We have taken them through the supply chain, and given them a lot of understanding into how to prepare, and how to cook fish. The difference I think is plain to see, both in the like-for-like performance of our fish, but also in the way in which they are serving customers at the counter. We are going to extend this approach to produce, and meat, and I can promise we will not rest until we have achieved our ambition. By doing this, I really believe that we are going to create a new point of differential for our customers in our stores.

In addition to this, we are also going to place new standards of service for our customer delivery assistants in the grocery home shopping business. Remember, these colleagues are the only Tesco colleagues our customers invite into their homes, so it is absolutely critical that they are the very best ambassadors for our brand.

Above all, this is much more than training and processes. The ambition to lead on service is the continuation of a cultural change that we started in our business two years ago. It is about customers being at the centre of everything we do, and our colleagues across the entire organisation feeling empowered to do whatever it takes to go that extra mile and resolve any point of failure for them.

General Merchandise

Onto General Merchandise. General Merchandise is an area where there have been some well-documented challenges for Tesco. We have made some important choices on those categories where we are going to grow, and we have made some important choices on those categories where we are not. Our range strategy for GM is now firmly anchored around family, food, cooking and home. We have been busy building the ranges, and testing how to best display them for customers in our larger stores.

Starting this year, these changes will roll out across all of our stores and online. The first starts in just four weeks' time, with the exciting launch of our new spring/summer ranges. This is a change of significant scale, which will bring together new ranges, hundreds of new products, new packaging and new merchandise displays. The initial transformation of the ranges should be complete as planned by Autumn this year. The full benefits will continue to come through as we roll out the new fixtures through the refresh program of our larger stores.

Staying on GM, I should say a few words about F&F. F&F, for me, is a tremendously important brand. We are learning a lot from the work that we have done on F&F, for the work that we are doing on GM. We are learning a lot about product design, a lot about supply chain, and a lot about brand management. Our F&F business is contributing over £1 billion of sales to our UK business, and we still see significant growth opportunities, both at home and overseas.

On top of that, as Phil mentioned earlier, our global sourcing capability gives us a massive advantage on GM. It means we can offer much stronger ranges of bespoke own-brand products than any of our competitors. This is increasingly important in the age of the internet. Differentiated product ranges both give a customer a reason to shop at Tesco, but also protect the sustainability and profitability of the category as a whole.

Convenience

Moving onto convenience, now. Convenience has been a strong growth story for Tesco, and we still see plenty of opportunity to drive further expansion in what remains a fast growing part of the market. We will open over 150 convenience stores a year, building on the strong lead we have established, and we will also accelerate our refresh program in Express, refreshing around 450 stores each year.

Importantly, we know convenience is not all about one-size fits-all. It is about making sure we are delivering our customers' shopping needs locally, in all the catchments we trade in. You can see from this graphic the level of thought that goes into this. Firstly, we understand the shopping mission for our customers. Is it a neighbourhood store where they want to top up, or is it a store on the move used for snacking and impulse? We then work on the store proposition, adjusting the space and adjusting the range based firstly on the mission, then, using unrivalled insight from Clubcard, we overlay affluence and ethnicity data, to ensure that the store provides the most relevant convenience range and offer, locally. This approach has enabled us to tailor the ranges for every single one of our 17,000 Express stores over the last twelve months, and we continue to use this approach to ensure that we are maintaining our promise of delivering the most relevant range for our customers.

Larger stores

On to larger stores. Of course, Phil mentioned earlier the overall performance of our large stores is probably one of the most important areas to address in the future. Customer shopping habits have changed, and our stores need to create a more compelling offer for customers to make the trip worthwhile. Put simply, we need to bring the very best of Tesco to our largest stores. We have tested and learnt a lot over the last twelve months, and I believe that we now have all the ingredients we need to make a compelling offer come to life. We have learnt that the store serve our customers in many different ways, and using our missions and propositions approach, we are now able to tailor the offer, the range and the layouts so that each store serves customers in a more exciting, convenient and relevant way locally. The aim is quite simple, to turn each of our large stores into a compelling retail destination. Now, as I said, the work has already started, and many of you here today have seen what this means in stores like Watford, Coventry and Purley. For those of you that have not, I thought I would share with you a few slides that bring this to life.

Now, the first thing that we need to ensure in our large stores is that we lay down the right space for food, and the food environment is far more engaging and more experiential for our customers, and you can see that here in our produce department, which is lower level, bringing the best of our product to life. Move onto the next slide, you can see hear through our counters: in Watford, this counter is right at the heart of the store. We have improved the range, added in more categories, more associated merchandising, and as I said earlier, improved the service of our colleagues for customers. Then also, onto the instruction of strong food and beverage brands, such as Euphorium, the bakery project, Harris + Hoole, and then of course Giraffe, which is amazingly successful in the stores that we have deployed it into. On top of this, we have strengthened our general merchandising offer with F&F, and also our new cook, dine and home departments, which we will see rolling out across more stores in the year ahead.

Health and wellbeing

And then finally, onto health and wellbeing. Incorporating pharmacy, nutritional and optical services, into a new, exciting category for our customers. Now, this programme of change for me is incredibly exciting. It has been put together through extensive trials of each ingredient, which we know has made a real difference for customers and for the performance of the store. I am very excited about the change that we will see in the next 12 to 24 months.

Following the successful pilots, we are now ready to roll out these changes through an accelerated refresh programme, as you can see here. In the first two columns you can see the number of stores we have refreshed to date, and the total number of stores in each format. As you can see from the third column, we are focusing our efforts on the Extra format in 2014, in addition to the Express refresh plan that I mentioned a bit earlier. We are also continuing the Superstore programme, at a slightly reduced rate, in order for us to focus more of our time on the Extras. Now, going forward we will pick this up, and as you can see from 2015, 2016, we will get back onto a normal Superstore rollout programme.

Now, of course, the stores that we are refreshing today are very different to the early work that we carried out back in 2012, and so there will be a number of stores, particularly the larger format stores, that we need to revisit to incorporate the latest learning and the latest initiatives that have proved to be so popular with our customers. As such, it is likely for us to take until probably 2017 before we have completed the accelerated refresh programme, and we can revert back to our more usual level of rolling refresh.

Clubcard

So I have covered six of the seven areas that I wanted to focus on today, and now I want to finish by sharing some of our ambitions for Clubcard. The Clubcard is absolutely at the heart of all of these plans, at the heart of our relationship with our customers. It is the glue that brings all of this together, connecting our brands and our services in a way that others simply cannot. It is a critically important tool which drives customer loyalty and helps us personalise and tailor our offer, and it will continue for the long-term to remain at the heart of Tesco's relationship with its customers. Clubcard will continue to provide our loyal customers with the best offers, best prices and best deals, and these will become even more personalised for them in the future. We are also continuing looking at our partners, both for the collection and the redemption of points, and we will be strengthening our relationship with our partners in the future.

Customer control

We will be doing much more to put customers in control of how they earn, how they save, and how they spend rewards. The key part of this will be to make Clubcard a common currency across all of our brands and services. Not just the Tesco stores online, but our extended brands such as Blinkbox, Harris + Hoole, Dobbies and Giraffe, for example.

The Orchard

We have already launched The Orchard, our new social network for our most engaged customers and colleagues. This enables our customers and colleagues to give feedback on products and services, and uses the power of social media to create really engaged advocates for our brand. It already has 50,000 members, and we are on track for 100,000 by the end of this year.

Digital Clubcard

Later this year, digital Clubcard will launch. This is a key development in the evolution of Clubcard, and it is something I am very excited about. This moves Clubcard into the connected and multi-channel world, making it completely mobile and digital.

Adding value

So you can see, we are absolutely determined to put more value into Clubcard, to make it the must-have card for our customers. The good news is that putting more value into Clubcard starts imminently, with the launch of Clubcard fuel save, a new scheme which allows customers to get new fuel by shopping at Tesco with their Clubcard. It is a major innovation for the UK supermarket sector, in an area which really matters to customers. Fuel costs have been, and continue to be, a big concern for our customers, and this is our way of helping.

Importantly, this is not a one-time promotion, but an important new initiative and a significant investment for us. Similar in scale to the new investment in price I mentioned earlier. Now, we have been trialling this in both Wales and Norwich, and the response from customers has been overwhelming positive, driving both loyalty and driving sales. The beauty of the scheme is in its simplicity: customers do their shopping in any store or online, scan their Clubcard, drive to Tesco filling station, and save up to 20p a litre. There is no minimum spend, every penny counts, and once they have an accumulated spend of £50, they can redeem 2p per litre instantly. Let me show you the ads that we have used to launch fuelsave in Wales. You will be pleased to know it is in English, not in Welsh.

[Advert]

Exciting stuff! So hopefully you have got a sense that we are serious about ensuring we have the most compelling offer for our customers, and that we are clearly investing to achieve that.

Productivity

We support this investment by accelerating our efforts in productivity. Productivity has always been a strength of Tesco: it is in our DNA to constantly search out more efficient ways of operating our business, and we have a strong pipeline of initiatives for the years ahead. These include the re-engineering of our promotions that I mentioned earlier, taking money from our promotions and reinvesting it in everyday low pricing.

Building on the benefits of our global sourcing, we have £75 million worth of benefit coming through in 2014 alone. And then a long pipeline of technology solutions such as voice guided picking in our DCs, and then a further roll out of 'scan as you shop'. More of the service initiatives, our customers absolutely love it, but also saves us some money as well

We are also continuing to find more productive ways of replenishing our stores. These are the right ways for our colleagues and the right way for our customers, and again, that is freeing up cash for us to reinvest back in the business.

Concluding remarks

So as you see, there are many ways we are helping to fund our accelerated efforts in the seven key areas that I have taken you through this afternoon. So let me close. I started today by explaining that I strongly believe our brand is unique, in that what we stand for is a brand that appeals to all. I also believe that our strengths online and offline provide us with a unique ability to understand and tailor our offer, which means we truly can be the broadest church and yet the most targeted and relevant retailer for each individual customer.

We have had two years of enormous change, but I think it has put us in an incredibly strong position to deliver against our ambition, and that is to lead this industry through the most compelling offer for customers.

Now let me hand over to Robin, who will show you in more detail how multi-channel is going to bring this together. Thank you for listening.

Establishing Multichannel Leadership

Robin Terrell

Group Multichannel Director

Introductory remarks

Thank you, Chris, and good afternoon everyone. Phil and Chris have both made it very clear that establishing multichannel leadership lies at the heart of our strategy both in the UK and for the group, and in my session I want to run through some of the work we have already done as well as our ambitions for the future.

Personal background

But first I thought it is appropriate that I would introduce myself and give you some of my background. I joined Tesco exactly one year ago today, but I have worked in ecommerce since the early days in the UK. I joined Amazon at the beginning of 1999, a few months after it had launched in the UK. Then we were fifty people in an office with a warehouse attached on the Slough trading estate. And many things have changed since then, and not least customer expectations. Back then then we would get letters from customers that said, 'I ordered a book, it showed up, that is amazing'. It would be fair to say that we do not get any letters like that anymore.

I spent six years at Amazon and ran the UK business for four of those. I then went to earn an early-stage online business called Figleaves.com, but then it was around the mid-2000s it was clear that a lot of traditional retailers were starting to get their act together online, and that they still had huge brand equity with customers. I worked in pure plays for nine years, so I decided I need to go and learn about physical retailing, and that is why I joined John Lewis. I ran their online business or their direct business as they called it, I joined them in 2008. It seems strange now, but no one was talking about multichannel in 2008, but that really changed. The customers could not understand why they ordered something online and they went into a shop and a partner in the store could not help them. So we started to join it all up: buying online, collecting in store, allowing partners to place orders on behalf of customers if their items were out of stock or not ranged in a particular store. And that was a massive partner engagement program that was called 'Hearts and Minds', really kickstarted the multichannel journey for John Lewis.

From there, I went to do a similar role at House of Fraser, which was at a much earlier stage because it had only launched a transactional website in 2007, and so we had the opportunity to build multichannel capability properly, from the ground up. And now I am at Tesco, for one year precisely. And the reason I came here is that, while a lot of people talk about wanting to be multichannel leaders, Tesco really can be. We have all the building blocks in order to be successful in the new era of retailing, and my job is to make sure we join them all up and give a seamless experience for customers.

Christmas highlighted trends within the industry

So, Philip showed this slide before, and as I mentioned, some traditional retailers grasped online relatively early. I think what you see here is that Tesco was one of those, and the Christmas trends showed the benefit that we yield from having been online for some time.

All the online businesses delivered strong growth. Obviously, the triple digit increase in Blinkbox stands out, as does the 75% growth in clothing online. Online general merchandise performance is particularly pleasing, though, because we have managed to stabilise and grow that business despite its somewhat troubled history. And of course, online grocery continues to grow, and that is a big business now, £2.5 billion of sales.

Rise in customer expectations

What Christmas told us was that our multichannel focus is the right one, but if anything we needed to go faster. Besides confirming the strong growth in online, Christmas confirmed some of the more sweeping changes taking place in customer behaviour, and I will touch on those in a moment. But the most important of all is this continued rise in customer expectations. Customers now want to shop however, whenever and wherever they want, and we have to respond to that change in behaviour and offer them a seamless and faultless experience.

Building on strengths

Philip showed you this slide earlier as well. From my perspective, it is really important to understand that there is no second curve without the first curve. We have some huge strengths to build on: our unrivalled store network, the unique customer relationship and insight we have with Clubcard, our portfolio brands and services, and – crucially – our team. All of these things make Tesco a leader in the first curve – the Bricks & Mortar world.

The second curve is about how we make Tesco as much of a leader in today's multichannel world as it has been in the Bricks & Mortar world. That means building on all of these historic strengths in a way that is relevant for the multichannel environment. I see that as the essence of what I am here to do. I am not here to be the online guy, off running online businesses, separate from the main business. My role is to bring together all of these building blocks to create the multichannel Tesco.

So, for example, stores remain a vital asset of the business, but we also need to be accessible to our customers, however, whenever and wherever they want. For that, we need to enable customers to reach us in new, additional ways. We need to use the power of Clubcard and Dunnhumby to personalise how we communicate to and serve our customers, and create compelling and unique content and experiences that will drive advocacy. And we need to be a creator of new brands and services, which our customers will love and value, whether they be physical, digital, or a combination.

What is multichannel?

So what is multichannel? People throw around terms like 'multichannel', 'digital', 'online', and – god help us – 'omnichannel'. But these terms are sometimes poorly understood and used incorrectly interchangeably. This slide helps to show you how you can define what multichannel means. You can see that it cuts across the digital and the physical, but it is not just about selling products; it is also about how we interact with and engage our customers.

So it is transactional and non-transactional, through every media channel, social media or even the customer service desk in store. Being truly multichannel is not about just having a website; it is about putting the customer at the heart of our business and giving them one, seamless, joined-up relationship with Tesco. And when we get this right, it just becomes the new way of working; it is integral to the whole business, because for us at Tesco, being the multichannel leader is a shared goal. As I have said to Philip, we will know we have succeeded when we do not need a multichannel director anymore.

Consumer trends towards multichannel

We mentioned earlier that there were some broader customer trends, making the case for multichannel even more compelling. As Philip, said online non-food sales accounted for almost 20% of total non-food spend at Christmas. In some categories, such as entertainment and books, online penetration is already much higher than that. Other categories may be further behind, but the direction of travel is clear. Every category will have very high online penetration over time.

This is not a niche thing; this is not just a digital native thing. 58% of 66 to 88 year-olds shop regularly online. And it is not just about the sales completed online. Even when a purchase is made in a store, increasingly the internet will have been used to research that purchase and to plan the shopping trip. Today over half of purchases are influenced by digital channels, and 43% of customers have used a mobile phone to compare prices or look up customer reviews while shopping in a store.

Mobile and tablet penetration

Mobile and tablet penetration is clearly helping to fuel this behaviour, and it continues to grow at a phenomenal pace. Already the average UK household has three internet-enabled devices, and again the direction of travel is clear.

With this, customers' purchase journeys are becoming more complex. We no longer have that easy, linear purchase journey. Customers bounce between channels and devices in whichever way they choose, and they expect a seamless experience. Because their expectations have increased, they are very unforgiving. It is a very different world from 1999. That is why it is so incredibly important that when we join the channels up, we join them up with zero defects. That means the end-to-end customer experience is faultless, with all defects eliminated.

In the first curve, an unhappy customer might tell 10 people about their bad experience. In the second curve, with the advent of social media, that is amplified. A customer can tell 10,000 people at the touch of a screen. Obviously the reverse is true too: get it right and a great experience is amplified.

Getting it right

When retailers do get it right, customers value that. The growth of multichannel is being driven by customer behaviour, and as retailers we clearly have to respond to that to continue to serve our customers. But there is also a huge commercial prize for those that get it right for customers. This slide shows that customers who shop in store and for food online spend twice as much as those who shop in store only. Add general merchandise online, and the figure becomes three times more.

That is not just because they are spending online; these customers are spending more in store too. And there is not a particular bias towards particular affluence groups. These shoppers come from across the affluence spectrum. Currently, though, only 4% of our customers shop in all three of these ways. The number is growing rapidly: it is up 17% year-on-year. But that clearly means that we have enormous headroom.

People often worry about cannibalisation, but that is fundamentally missing the point. It is about identifying your most valuable customers and satisfying them, however, whenever and wherever they want to shop with us. And as customers increase the number of channels, from the Clubcard data we have, we see their spend increase accordingly. This is our opportunity.

The multichannel journey: an example

What does a multichannel journey look like? Let me bring it to life. Imagine a customer who is looking for inspiration for dinner on a Friday night. It is Thursday night, and she is looking through recipes online, trying to find something that she wants to cook. She finds a recipe she likes; she adds the ingredients directly to her online basket, then she chooses next day click-and-collect. On Friday she thinks of some other things she wants to pick up while she is at the store, so she adds them to the shopping list on her mobile. In the afternoon, she arrives at the store to collect her order. The items are loaded into the car for her. She then goes into the store to pick up the extra items.

At the entrance she uses her mobile to check in. This instantly downloads all her Clubcard vouchers and some specific recommendations. Her shopping list app then helps her find the items she wants by directing her to the specific location, and as she picks them up she scans them with her mobile. As she walks around the store she is prompted for items she might like based on her previous purchases; for example, the new Healthy Living range. She adds some to her basket and scans them. Once she finishes shopping, she pays using a digital wallet and receives a digital receipt. She does not go near a checkout.

Some of that feels like today, but some of it feels very futuristic, or certainly some way into the future. But actually this experience is a lot closer than you think. In fact, all of the applications and services this customer used on that journey are either available to customers now, being piloted, or being imminently launched. So in 2014, these futuristic multichannel journeys are actually going to be the reality for Tesco customers.

The building blocks for multichannel

As I said at the start, we have already created the building blocks for multichannel over the past decade. These really do set Tesco apart from other retailers, and as someone still relatively new to the business, I could spend all day describing the many advantages they give us. We have put some of the details on this slide; I am not going to go through all of them, but I do want to pick out some highlights.

Clubcard

We have a store portfolio which is second to none, providing over 3,300 touch points with customers. We have Clubcard, which Chris rightly describes as the jewel in the crown. A lot of people talk about having a single view of the customer, but you cannot do that if you have no way of identifying the specific behaviour of the customer across different channels and touch points. So our 17 million Clubcard holders in the UK and 43 million around the world give us a tremendous advantage. We know a lot about what they want and how they shop, and it gives us a huge opportunity to recommend relevant products and services to them. And behind Clubcard sits dunnhumby, with its insights into over 400 million households worldwide.

Most profitable online grocery

We are the largest, most profitable online grocery business in the world, with a fleet of over 3,000 vans delivering to every household in the country seven days a week, early in the morning until late at night. And that is a great example of our capability and scalability. We launched this service in six countries in the space of 12 months, where most companies would struggle to launch one.

General Merchandise

General merchandise online has had a bumpy ride, but we have made some phenomenal progress over the past year – and not just the impressive sales growth at Christmas, which I showed you earlier. We have also significantly improved customer satisfaction in the overall customer experience. For example, our contacts per order ratio, which indicates the number of customers getting in touch with us – generally because there is an issue with their order – has halved in the past year. We have reduced our losses, and we are on the right track. And as the customer spend data showed earlier, it is critical to our future success.

Online clothing business

Our online clothing business is growing rapidly, and is now shipping internationally to 70 countries, and we will soon be launching dedicated international websites, which clearly represents another enormous opportunity.

Tesco Bank and Tesco Mobile

Then we have Tesco Bank and Tesco Mobile, which are also key building blocks. Think of the digital wallet I talked about a few moments ago, and the fact that the mobile phone will fundamentally transform the physical shopping experience. The bank has seven million customers; Tesco Mobile has four million. It is the fifth highest mobile network in the UK and has the highest customer satisfaction ratings in the industry.

Devices

Our digital capabilities are unrivalled in the industry. Today's world requires some different skills, and we have made a conscious decision not to outsource; one example of this is the creation of our digital development centre in London, and of course we have our own device in the shape of Hudl, providing customers with a tangible link into our digital eco-system with online shopping and digital entertainment services. I will come back to that shortly.

Grocery home shopping

I touched on grocery home shopping a moment ago, but I wanted to come back to it because it really is a unique point of difference for Tesco. Just as a reminder, we have been at this for seventeen years. That depth of experience and constant refinement of the operating platform processes has enabled us to develop a highly efficient picking model. Of course, that model itself would not be possible without Tesco's leading space range of merchandising systems for the stores. We pick from 300 locations, and being that close to customers with the most established business in the market gives us excellent delivery drop densities.

All of these things have enabled us to build real scale £2.5 billion of sales and still growing nicely. I know Tesco's talked for a while about having a profitable model, so I really wanted to shed some light on that for you: this year, we will make £127 million trading profit from online grocery in the UK. That includes the full cost of all activities associated with the business: picking, driving, fuel, marketing promotions, staff, everything. It really is something that we are all very proud of.

But I am here to make sure that we take full advantage of this amazing asset, and actually channel profitability is only one part of the story. My focus, and increasingly that of my colleagues, is on customer profitability, not channel profitability. I have already shown you what happens to customer loyalty and spend when a customer shops across more than one channel or service, and we see our online businesses and the acceleration of our growth in those channels as a fantastic way to help meet more customer needs, opening up a much wider range of opportunities for both our customers and for us. We are now looking at this in a much more customer-centric way, much more seamless with new measures, new KPIs and new ambitions. I very much hope and expect that we will have the opportunity to share more of those with you as the business progresses.

We have ambitious goals

So, I have talked about what we have in place. Now I will talk a little bit about what we are planning to do.

Fulfilment and delivery

One of the great myths of online shopping is that home delivery is universally convenient. It is only really convenient if you are at home. Most retailers, even the good ones, offer named-day delivery at best, and maybe if you are lucky a morning or afternoon slot. If you are out when the delivery comes, your item might be left on the doorstep, chucked over a gate, or taken back to a delivery hub that could be miles away. Fundamentally, despite all the changes in customer behaviour, we are still in the business of connecting customers with products and services. Fulfilment and delivery are some of the key battlegrounds in the multichannel world.

One-hour delivery slots for every product

I mentioned before that we have our own network that delivers to every house in the country, seven days a week, early in the morning until late at night, but right now that only delivers groceries, not even our own general merchandise or clothing. So we will ensure we will deliver all these items too.

No general merchandise retailer offers one-hour delivery slots across the whole country seven days a week, and over time we will do this, not just for our own products but also for those of others who sell through our platforms.

Even more Click & Collect locations

But we also know that for some customers, sometimes, even a one-hour delivery slot is not convenient enough. We already offer Click & Collect in more stores than any other retailer, but we plan to expand that across the store estate for all of our products and for those who sell through our platforms. We also know that customers want even more locations, so expect to see us offer the service in other locations too, building on the success of some of our recent trials. Fulfilment and delivery are critical to success, and we believe we have all the assets needed to lead this in the UK for our products and for those of others.

A bold plan for 2014

In addition to that broader, medium-term goal, we have set out a bold plan for 2014. Chris has already talked about our plan for service leadership, including our customer delivery assistants. He has also covered Digital Clubcard which, as you can see from the illustration I shared earlier, is at the heart of our customers' future multi-channel experiences.

Sharper prices

In addition to these important plans, we are going to offer market-leading delivery pricing, with grocery being the first place we will move. Customers will consistently tell you that for any category the number one barrier to shopping online is delivery charges, so taking a leadership position here really matters for customers.

This will be supported by free Click & Collect across all categories, including grocery. Customers love Click & Collect; it already accounts for 6% of grocery sales and 70% of general merchandise sales, and we see additional sales in store when customers come to collect their items.

We will also lower the price of our Delivery Saver subscription service and offer customers a no-risk guarantee. If they do not use the service enough for them to benefit from the savings, we will give them the difference back.

We will also build on the subscription plan to offer more value-added services to customers. We already have over 190,000 Delivery Saver subscribers and there is an enormous opportunity in the subscription model, particularly as we offer an unrivalled range of products and services. It will be very much a customer-led, pick-and-mix-type offer. Customers will select services which are important to them and bundle them themselves; no rigid bundles, but highly personalised.

Better service

As I mentioned, we will dramatically expand the number of Click & Collect locations both in stores and beyond. You will be aware of the trials in the London Underground and in York, and we will be doing more. Collection lockers will also form part of our plan.

Added-value products and services

We will soon be launching a current account, as Philip mentioned, from the Tesco Bank, and I have already discussed the plans for digital wallet. We will be launching Blinkbox Books, complementing the Movies and Music platforms which are already up and running.

Connected devices are an essential ingredient

Making tablets accessible to all

A key development for us has been the launch of Hudl, our own tablet. I do not know how much you know about the development of Hudl; we actually started back in 2012 with a lot of extensive customer research and the audit of many potential suppliers. We wanted to create an accessible product for customers who would not otherwise have bought the tablet. We wanted to democratise this technology, with no compromise on quality.

Benchmarked against the best

But the first version was not good enough. We had to make sure our customers had a great experience, and so we pulled it. It goes back to the zero defects approach I mentioned earlier. We are very proud of this product, though. It is benchmarked against the Google Nexus and Amazon Kindle with a clear design objective of being accessible to all, easy, inviting and intuitive to use and at a great price.

Fastest-selling tablet at Tesco

We believed in the idea, but its success has surpassed even our expectations. We simply did not make enough; 500,000 units have been sold, with the product selling out at Christmas, and it earned outstanding reviews from the technology press. But its success goes far beyond the sales unit numbers.

Catapult for Tesco online and digital

The built-in Tesco apps proved hugely important, meaning customers could easily navigate the range of products and services available through the Tesco team. As a result, we have seen daily revenue from Blinkbox Movies increase nine-fold, and a five-fold increase in streams of Blinkbox Music.

But importantly, it has also helped our core business, with Hudl customers immediately spending meaningful additional amounts with Tesco both in store and online. We want to build on the success of Hudl. Technology moves quickly; we want to continue to innovate and provide the best technology at the most reasonable price. So this year we will launch Hudl 2, and that is not all we will be doing in this space either.

Accelerating our efforts to create a seamless, end-to-end customer experience

Hopefully now you have a good sense of what I mean when I talk about multichannel. It does not mean selling groceries online; it means putting the customer at the heart of business and giving them one seamless joined-up relationship with Tesco. We are focused on creating the most compelling offer for our customers however, wherever, and whenever they choose to shop with us. We have some great foundations on which to build. There is of course much more to do, but I am confident we are well on the way to achieving our goal of multichannel leadership.

Thank you for listening and I will now hand you over to Laurie for the final part of the presentation.

Winning in the new era of retail

Laurie McIlwee

Chief Financial Officer

Good afternoon everybody. We have talked a lot about the new era of retailing this afternoon. Phil, Chris and Robin have laid out some of the trends we are experiencing and our exciting plans for the years ahead. To put these in context, I wanted to take a step back and think about how much our own business has changed in just the last few years.

Tesco has changed

We have always had many opportunities for growth, many more in fact than we have been able to pursue. The change we have led is to exert more discipline around which opportunities to take up and which to step back from. Ultimately it is about choices, prioritising and allocating capital to those opportunities which of course are right for customers but also produce attractive investment returns.

Capital expenditure

In 2009, our peak year, we reported £6.6 billion in terms of capital, and this included £2 billion on acquisitions in the same year. Since then, clearly the world has changed, and we've changed too. In addition to the decisive actions we have taken over the last few years at a corporate level, we've introduced more rigorous capital appraisal processes, strengthened our application of hurdle rates and completely reengineered our strategic planning process. This has enabled us to make better decisions about which opportunities to invest in for sustainable long-term growth and returns. As a result, we have already reduced the amount of capex at an annual rate to just over £3 billion in 2013/2014, and further reduction we have announced today will take us to the lowest level for nearly ten years.

New space

A big part of this is ensuring our space programme is appropriate for the times and the situation that we are in. As a result, we have radically cut back the new space addition across the group, particularly in the UK and Europe. The 2009 number on this slide includes the Korean acquisition, but even so, this is probably the starkest change I will refer to, from 11.5 million square feet.

The remaining new space, as you know, is far more focused on the growth format of convenience. Many of our competitors talk about rapidly accelerating their plans into convenience, but even in 2009 Tesco was already leading this market with nearly 1,000 Express stores in the UK alone. Today, that number is nearly 70% higher at almost 1,700 stores, and of course we also have more than 700 One Stop stores.

Online grocery

There are so many measures that I could use to highlight the strength of our online grocery business. One of the most telling points is in fact its age. Tesco anticipated in the 1990's what some others are just starting to wake up to, and we first introduced the model about 17 years ago.

Importantly though, we have innovated to respond to the changing customer needs as the business has developed. One clear example of this is grocery Click & Collect; the service did not exist a few years ago, and today we have more than 230 locations. That follows the rapid expansion of Click & Collect for general merchandise, which is now available for more than 1,750 locations.

Tesco is more focused

Over the period of time that Phil has been CEO we have been much clearer about the three strategic priorities: continuing to invest in a strong UK business, establishing multichannel leadership, and disciplined international growth. We always seek to invest for the long-term, and this approach has led to strong leading positions in many of our overseas markets.

However, as you know, we could not see a route to making an acceptable return in either the US or Japan in an acceptable timeframe. Our exits from those markets have left us in a far better place for the decades ahead of us, more focused and relieved of the strains that had weighed heavy for a number of years on our most important business here at home.

Overseas growth

Our absolute focus on capital allocation and capital discipline has also led us to be innovative in accessing overseas growth. Our partnerships in China and India, both very different, enable us to have a presence in markets with vast future potential with a much lower capital intensity than going it alone. They allow us with our partners to combine strong local expertise with our retail knowhow in order to deliver a much stronger proposition for customers. It is of course the capabilities that Phil laid out right at the start of his presentation that first led CRE to come and talk to us about being their partners.

Store franchising

There are of course other ways of accessing growth in a capital light-way, and these too have become a much more important part of our mind-set over recent years. First, we started to explore store franchising in a number of our existing markets; Korea and the Czech Republic, and then most recently here at home with One Stop. Second, and most successfully to date, we have brought our clothing brand F&F to ten additional countries outside of our existing markets through a number of franchise partnerships. Our latest partnership launched in the Philippines just a few weeks ago.

We first shared this framework with you in April last year, although we have been using it to drive our decisions internally for a lot longer. It continues to inform our decisions about everything we do; it ensures that we move forward in a balanced way and that we focus our efforts on driving the best combination of growth, returns and cash generation. As we said when we shared it with you, it provides the medium-term guidance for what you can expect from Tesco from a financial perspective. We are committed to achieving these goals in the medium-term; we could pull back from some of our plans to produce immediate mid-single digit growth, but instead we are prioritising delivery of the most compelling offer for customers. We believe it better to invest to accelerate our multi-channel strategy, and to invest in becoming an even more competitive retailer in the current market. We are absolutely focused on increasing customer loyalty and improving sales.

Financial framework remains appropriate for the medium-term

Cash flow

With the changes we have announced today, our focus on cash remains absolutely intact. Our even greater focus on capital discipline will help us to maintain our commitment to generate positive free cash flow; it will help us to maintain a strong balance sheet and continue to maintain a strong dividend. By putting the customer first, we are positioning Tesco to deliver attractive and sustainable profit and returns. The speedier contraction of new space that we have announced today allows us to accelerate our multichannel plans and go faster with our store refresh programme whilst bringing down our overall capital expenditure significantly.

Capital expenditure

As a result, our capital expenditure will drop straight to the bottom of our guiderail rather than decline more slowly as we had originally planned. We are underpinning this further increase in capital discipline with a firm commitment to spend no more than £2.5 billion for at least each of the next three years. You can see how this breaks down on the chart: we are spending more on our existing space due to our accelerated refresh programme, we are maintaining our level of spend on technology and we're spending significantly less on new space.

High-returning investments overseas

Overseas, we have virtually turned off any new investment in Europe, focusing all our remaining investment on targeted high-returning investments in Korea, Malaysia and Thailand. It is really quite striking how the total level of spend compares to just a few years ago, with the majority of the change being driven by new space reduction and a true reflection of the new era at Tesco.

A transitional period

We are going through a transitional period in a lower-growth environment. The acceleration of our plans will, as I have said, be reflected in our near-term performance. I hope we have been clear: we are still a growth company. Our customer focus will drive the top line growth over the longer-term, which in turn will drive our profits. Cash, not percentage margin, will define our success, and delivering for customers will drive returns.

Looking further ahead

You have heard a lot today about the structural changes that the industry is going through. One way of looking at this is that by meeting customer needs, for example picking and delivering their shopping for them, we are incurring costs that we cannot fully pass on to them through a service charge. These are the services customers want and expect, and in a competitive market it is likely to continue the way that it is for some time to come. There are of course offsets of these additional costs and we have talked about some of them today, such as improving efficiency, using automation where it makes sense and driving advantages through increasing scale.

The way I prefer to look at how this will play out over the long-term, though, is this: rather than looking at the existing way of doing business and seeing how it is challenged by the changes afoot, look at the new opportunities to serve our customers which are being created by this new era. Just think of all the new infrastructure and capabilities that we have created, such as the ability to deliver to the entire nation in one-hour slots, the digital capabilities that we are adding to dunnhumby and Clubcard, and the grocery home shopping platform that now serves 2 million customers in ten markets. They are highly valuable assets which will become even more important in the new era, enabling us to further differentiate ourselves and delight our customers every time we have the opportunity to serve them.

As we saw from Robin just a few moments ago, the retailer who can best meet customer needs across the widest variety of channels will be well-rewarded. It is by focusing relentlessly on customers that retailers in the new era can really win. It is also by focusing relentlessly on customers that winners in this new era will generate healthy returns.

Thank you. I will now hand back to Phil to wrap up.

Closing Remarks

Philip Clarke

CEO, Tesco

Most compelling offer for customers

Thanks Laurie. Well, I hope my colleagues and I have helped you understand better our longer-term strategy. I think it is a strong plan, some of which you have seen today. It is more focused than ever before on a more compelling offer. I think uncertainties do remain, and we have outlined them. We are in control of what we are in control of; we cannot be in control of everything. We are retaining the flexibility to act accordingly. The margin will be what the margin will be, but this plan is going to be delivered and we are going to deliver the most compelling offer for our customers in the medium- and long-term based on that notion: it is about price, quality, range and service in the right environment, and brought together in a seamless, connected way.

Tesco in the new era

I hope you have also picked up a taste of how we run the business for our customers, with increasingly empowered colleagues and a determination to engage all of our stakeholders in a more open way. I am really excited about the future. We have these unique capabilities that will allow us to lead, as ever, and very importantly Tesco is for everyone; it is an everyday needs business of which the foundation must be outstanding value. We have to meet these everyday needs better than everyone. That is what gets us out of bed in the morning, that is what keeps a spring in our step, and that is what is going to make sure that we are a winner in the new era of retailing.

So, thank you for your patience. I know there was a lot to listen to; I hope you found it valuable. I will ask my colleagues now to come up and join me and we will be happy to take any questions that you have.

Q&A

David McCarthy (HSBC): The obvious question which everyone is going to want to know the answer to is about the margin, but I do not think you are going to answer that so I am going to ask a question slightly differently. Going by what you said at the end there and what Laurie said, are you saying that this is going to be a lower-margin industry going forward?

For my second question I want to come back to the petrol thing, the loyalty card thing; that only works if you have the right pricing policy on petrol, so if you are jacking your prices up and you are above the going rate in a locality – as you are where I live, by the way, 3p a litre more than Asda – getting 2p off does not do anything for me. So the customer will see through that; you cannot fool all the people all the time.

And then the third question is about the size of the online grocery market, because I think there is a bit of mythology and misinformation about this. People think, 'Oh, you know, it is a big market,' etc., but of course if you have a limit of £40 minimum delivery or £50 minimum delivery, whatever it might be, then the market you are potentially servicing is going to be a lot smaller. So it is not a £120 billion market; how big is the market that you could potentially serve? Because I did notice on the presentation that you are predicting a slowing down of the growth of the grocery market in that over the last three years it has doubled, going from 3% to 6%, but in the next five years you are just looking for an extra 2%.

Philip Clarke: Well, thank you. Robin, you know better than I the projections for the growth of grocery home shopping in the UK in the next decade. There are some extreme numbers out there and there are some more modest ones, but do you want to just help people understand how we see it and where those are, and then we will come back to if it is a lower-margin industry full stop and the question about Clubcard Fuel Save.

Robin Terrell: Yes. I think with the online grocery market all the projections obviously are wrong, because they will be; all of the online projections always have been if you go back historically. But there is a very wide range of expectations, from 12% to 20% over the next five to eight years effectively, and I think we are not fixated by the specific number over a particular time.

Again, it is back to the point I was making earlier that the direction of travel is really clear. I think you are right: there is a point around within the market and the size of basket and how much is addressable, but equally what we are going to be absolutely clear about is we are going to address as much of that market as possible. Because if you think about the economics of the delivery, as we start to add additional items or additional products to each of those deliveries the economics become incredibly compelling for us, but also a much more compelling offer for customers.

Philip Clarke: Thank you. On Clubcard Fuel Save, I am really disappointed that we are 3p more expensive than anybody on fuel in any market. It is not what we should be, and I completely agree with you Dave, you cannot fool people. It does not work. So, in the last 18 months we have been the first to take down our prices on fuel, and we will make sure that we are competitive; customers get Clubcard points on our fuel, as others will know.

And on the margin position for the industry, I cannot really speak for the industry. I think all I can say is in the medium-term we see plenty of opportunities to create value, but I do not want to be talking about creating value without talking about making sure we have the right prices and the right quality and the right range and the right service. Our job now is to make sure we do the best for customers, and some of the charts we have shown I hope demonstrate the value you can create by building this multichannel relationship with customers. Thank you.

Edouard Aubin (Morgan Stanley): Yes, hello. Just one question for me: in late 2011 you launched the Big Price Drop initiative, and I think if I remember you announced that you would invest around £500 million in lowering prices. Yet a number of third-party surveys have shown that your relative price positioning might have deteriorated since then in the UK, so why could we have some confidence that the £200 million incremental you are announcing today will make a difference?

Philip Clarke: You are right, we did launch the Big Price Drop in 2011; I think everybody knows that it was not executed particularly well. We have spent the last two years strengthening the foundations of our business. There was a lot to do, more than I think even we expected. We are trying to change an organisation's fundamental approach to pricing and quality, to range and to service, and that has taken us more time than we thought it would, candidly. That is why our performance is not where we want it to be or where we think it should be.

The plans we have set out here are for the medium-term; they are much more about Tesco saying it will be about this outstanding value proposition of which price is critical. Those price cuts started yesterday; they are going to wave this year, and they say that they are going to stay there, and this time they will. People, as David has said, cannot be fooled in this open and transparent world, so I am not attempting to fool anybody. What I am saying is we are going to do what we have said, and people will listen to me and they will watch what we do: we are absolutely determined, and we feel now that we are not on shifting sand. Our colleagues know what they have to do; Chris and I have spent two years, me in 2012 with him and him in 2013, walking stores, helping people understand, reengineering. We just feel like now is the time to go faster and deliver in a way that I regret we did not in late 2011.

Bruno Monteyne (Sanford Bernstein): Three questions, Phil. Do you believe this new plan is enough to stop the market share losses? Second of all: if so, by when? The third thing is you talk a lot about accelerating the plan, indicating you are continuing your current approach just faster and bigger and better, but do you have any data indicating that your current plan is working, therefore justifying accelerating in that direction?

Philip Clarke: I do not think market share is an end in itself. I certainly do not think in the short-term or even the medium-term it needs to be. What we want is the most compelling offer for customers; we know that that is going to take us some time. Yes, we are investing in this year in price and in quality and in range and in service, not just in bricks and mortar but also online; a lot of what was spoken about by Robin was all about making online shopping more competitive. I think it was Robin who said what gets in the way is the delivery charge to consumers, so we passionately believe and I believe that once we deliver the most compelling offer, and once we have refreshed all of those stores that will take us another three years, we will have a business that is stronger for the future, that will deliver sustainable profit and returns for our shareholders. That is why we stay with these guiderails rather than throw them away.

Laurie and I have talked for three years about how we get the business shaped, and it takes you time to reshape things, particularly something of this size. So on your second question, when: when we see it. Does the plan have any solids in terms of results? Well, we have been showing them; we showed them at the interims, we will show them again at the prelims. Chris and I have a meeting every week where we look at the customer metrics, and they are absolutely critical, but you could see from that chart with the hypermarkets down three that that is a fundamental issue which we feel we now know how to address. Hence our acceleration, an acceleration of things which we have tested, piloted and are now prepared to roll out.

Chris, do you want to talk about some of the solids that we are now going to roll out, because you spend much more time around the business on a day to day basis than anybody here.

Chris Bush: Yes, by all means. I think through the presentation we talked a lot about what we have been doing and testing over the last year or two, and if you look at the work we are doing on large stores making a more compelling destination for our customers, in each of the three stores there are very good solids that suggest that what we have done is working for customers. Customer count is up, loyalty is up, sales are up and profits are up.

On Fuel Save is another good example. We have tested Fuel Save in Norwich and then we were so pleased with the results we took it to Wales. That is already showing good trajectory on all those things that we saw in Norwich, whether that is customer loyalty, whether it is sales, whether it is fuel volume.

So I think the plan is based on some really good solids and some strong solids, and we are in a very strong position, I think, to accelerate that. We spent two years strengthening the foundations of the business, every part of it, whether it is price, whether it is quality, whether it is our ranging, whether it is refresh. So, I am very confident that we are now in a great place to get on and accelerate the work that we have been testing in the last 12 months, which I think is backed up with some really good solids.

Philip Clarke: Just before Christmas Chris and I went out to Norwich. We've got a couple of big stores and a number of Express convenient stores, and we were looking at Clubcard Fuel Save. I remember standing in a petrol filling station kiosk with Chris open-mouthed. I have not seen anything like that; customers holding on to their Clubcards like it was their life, they had to keep it. I have not seen as many Clubcards dropped as well, it is very strange. A customer gave in his Tesco Personal Finance, Tesco Bank Credit Card, and the colleague swiped it and said, 'You have 8p off a litre sir, do you want to have it now?' He said, 'What do you mean, 8p off a litre?' because he had missed the communication, and he shouldn't have.

Chris Bush: That was my fault.

Philip Clarke: I may have mentioned that a few times, a bit like the Hudl selling out, but anyway.

Chris Bush: Which was my fault.

Philip Clarke: Anyway, fuel volumes are up substantially in Norwich and sales were up nicely, and Clubcard participation is up, and it is because you are rewarding customers in a way that is kind of – by the way, it is not our idea; I would love to say we are just so good at these things we dream these things up. There is a retailer somewhere else that has been running it for seven years and they still get incremental sales improvements from it. But I still must say you are right Dave: prices have got to be right on fuel too.

Chris Bush: It is worth saying that the director who runs our fuel business, who has been running the fuel business in Tesco for nine years, came to me the other day and said this is the very best thing that has ever happened to him in nine years of doing his job, not just personally but in work. He is so delighted.

Bruno Monteyne: Just as a follow-up, it is a bit reminiscent of two years ago when you had 20 or 40 stores with the fresh investment and then you were quoting a 2% like-for-like increase in the initial trial stores above the rest of the estate, that then did not feed through. So what is the difference between the big trial on 20 or 40 stores two years ago and the three stores this time? What gives you so much more confidence in that?

Chris Bush: I think with the trial stores last year, the ones that you refer to give us a lot of confidence. The challenge for us is it is a big business. We have 3,000 stores; it takes a while before you get over the tipping point of rolling out everything we have trialled and tested where it starts to show in the headline numbers. We are absolutely confident in the three prototype stores. We have been testing those since July last year and the individual ingredients of course are in more stores than just those three. So I think we are in a good place.

Clive Black (Shore Capital): A couple of questions, if I may. Firstly, of the four points you outlined to improve Tesco stores **–** price, range, service, quality **–** which do you think are most important of those? And why does Price Promise just relate to four national superstores which are virtually all losing market share?

Secondly, in terms of putting together everything you have talked about today in terms of mix and price investment and all the rest, am I right in saying that you are effectively talking about going backwards to go forwards here and therefore we should be expecting 2014/2015 consensus to be lower to reflect the front-end loading of costs in order to win later on?

Chris Bush: On your first question, I think it is a difficult one because it is not about one of the four. It is actually about doing a great job on all four. If you are a retailer like Tesco which is appealing to all, you have to make sure that you are exceptional on all four of those qualities through the eyes of customers, and that is why it is in the plan.

On your question on Price Promise, I guess what you are asking is why we do not include the discounters in Price Promise. I think there are a couple of good reasons for that. One is their range is of course nowhere near as broad as the ranges that we have in our store, so therefore the percentage of lines that would go through the Price Promise mechanic is relatively small. So that is why we do not include them at the moment. Price Promise has been tremendously successful for our customers against the big four. It gives great reassurance, and as you have seen it has improved every single one of our price perception measures.

Coming back on to price and the price investment that we are making, I was in Finchley a couple of weeks ago talking to a customer on the shop floor. He was 82 years of age, had been a loyal Tesco customer for ages and loves the store, particularly since we refreshed it. I was chatting to him and he said to me, 'I love this store, it is bloody fantastic. I am here on a regular basis, I know the staff, but I have to pop up the road to Aldi to buy a couple of things which here I just think you are too expensive on, and those are really the essentials for me in my basket,' some of those essential produce lines and a couple of other lines that he mentioned. Off the back of that and the other research we have done, I went back to Phil and said, 'Phil, we have to move quicker and accelerate our plan on price; we have to put more investment into getting the essentials, those lines that are right in the core of the basket, to be at the right price, and I think that will help us enormously and help our customers more importantly.' I think Price Promise then becomes the catch-all.

Laurie McIlwee: The most important thing to take away from today: you should be in no doubt that we are ever more focused on delivering the most compelling shopping trip for customers, and as you have seen in the content of the presentation that means being a lot more competitive in our core business but going even faster with our multi-channel strategy. As you rightly allude to, there are uncertainties; there are uncertainties in the short-term around the structural change that is happening in the market, the rate of improvement of the cyclical change that is happening in the market, but also what is going to be the competitive reaction to what we are about to do, and of course, we expect one. It is to that backdrop that really, if I was to be specific about profits going up, going down, going sideways, I would be introducing a level of false precision. We do not know, because of those uncertainties. What you should be really assured by is that whatever it takes to win in this new era of retailing we are absolutely going to do.

Sreedhar Mahamkali (Macquarie): I have just three things. You talked a lot about improving customer metrics. From your collective experience, when does the inflection point come? How long does it take to move the needle in terms of sales? Is it six months, a year, 18 months? What is your kind of collective knowledge in terms of having seen this in several markets, say from where we are now?

Secondly, in terms of specifically UK footage, I can see you have taken it down quite significantly. That is very meaningful, probably the lowest since 10/15 years that I can certainly go back to, but the point really though is do you still really need 3,000 touch points in the UK and 247 hypermarkets in what you clearly call a new era of retail? Do you possibly foresee store closures, particularly for hypermarkets in the North?

The third question is again related, on capex. In a four or five year view, you have taken a big step down at £2.5 billion, but you are still spending 1.6–1.7 times depreciation. Does that still make sense in this new era?

Philip Clarke: I have not known a situation like this in my 40 years, to your first question, because of this first curve second curve phenomena. The last time we had a recession that was anywhere near as deep as this for consumers I did not know what the internet was, and at Christmas it was 8% of food sales for us and 20% of non-food sales. As Robin has been able to show when Dave asked how big this direction of travel is going to be, we do not know, and therefore we do not know what that will mean to bricks and mortar retailing. All we know is that if we do not have a bricks and clicks offer, we will have a very serious problem.

I just do not know, but I am retaining the flexibility to react accordingly and I just feel now is the time that we need to do that. We really do need to get a more compelling offer for our customers and be more competitive in every aspect of our offer, but critically we have got to get these hypermarkets refreshed. Watford is amazing; it is becoming the benchmark. I mean, there are other stores that are as good in the world, and some of my colleagues have seen them. I have not seen one yet. We just need to do more of them; we have not done enough because we wanted to strengthen the foundations, and we feel like we have strengthened them enough now that we can stand here and say we want to go faster and we are going faster now.

On 247 hypers and whether we need them, I refer you to my last answer: at the moment, I think that we really do believe that we have a really material number of stores. The vast majority are very well-located and will be good for the future, but at the interims we spoke about the fact that we saw a number that we needed to downsize. We have begun the downsizing of some of them, but we have only done two and we do not know how they are going to react. We will do a few more in 2014. We are not planning any closures in the UK in 2014 other than replacement. So, you will see at the preliminary results we are going to have a few store closures, but they are going to be replaced by others, just as we recently did in Wisbech.

On capex, I hope what you can see from our guiderails is an absolute determination about returns, but we have to refresh these stores or else they just will not be competitive. We cannot just leave them the way they are. That over footage on consumer electronics and general merchandise undercooked many of them on food. Some of them are too big. Most of them have not got enough clothing. Our casual dining business is raring to go; it is only in four or five stores, but in a years' time it will be in 50. All of this is to create a more compelling destination. Harris + Hoole is beginning its rollout, and we are going to have to spend capital. I do not know what that means in four years' time, but you heard from Chris, a more normal level of refresh should be possible once we have got over this hump.

All of that of course with the capital coming down to £2.5 billion, not £3.5 billion, in order to do it. Laurie has really helped my team in the last couple of years think much more about the critical importance of cash. There is lots that we are doing and lots more that we can do to create the room for the future to make this business sustainable in the medium- and long-term.

James Grzinic (Jefferies): I appreciate that you cannot give us specific guiderails, but presumably you have gone through this on the capital appraisal processes, etc. If we look at the base of pound trading profit that UK retail does or is expected to do in the year that just closed, and you apply your midterm time horizon which I presume is two to three years, can you tell us whether you expect that to show growth? Because I presume you would have made a forecasting assumption from that perspective?

Laurie McIlwee: Well, really how I responded to Clive's question, James, a lot of that answer applies to your question. The reason why I do not want to be over-specific is for a very obvious reason: that there are uncertainties in the market and I want to make sure that our business has absolutely got the room to compete and win in this new era. So, I do not want us to get boxed in to exactly saying what the time period for short-term and what is the time period for medium-term is. But what we have been very clear on is that those medium-term guiderails which are a combination of cash generation and returns and profit are a very balanced scorecard that we are very committed to.

The other aspect of the shape of the business that I think we have been really clear on actually is the capital expenditure, which has actually come down through the guiderails quicker than we had originally planned because we are accelerating other aspects of our business. So again, we are showing good discipline about balance.

John Kershaw (Exane): Two questions, just I suppose following on, on the capex side, there obviously is an accelerated refit spend, so perhaps could you give us an underlying capex stripped out of that exceptional conversion acceleration and then perhaps added to that, why do you not guide us more on a cash flow basis rather than a returns basis in a multi-channel world where clearly capital intensity is less important?

Coming back to the UK – and perhaps, Phil or Chris, you can touch on the brand perception, because you have admitted your brand has got some issues and the pricing is not quite where it is, and Tesco is quite a functional brand. So, what else do you need to do form a softer perspective rather than multichannel? Is there something else there that, perhaps for commercial reasons, you're not talking to?

Philip Clarke: He's hitting all the numbers isn't he? The capex and what about guiding us in a different way, and then why don't you, Chris, then follow on about the UK and the brand and then if you drop anything then I will pick it up.

Chris Bush: Are you suggesting I will?

Laurie McIlwee: Well, I guess some background for you first, John, on capex and the accelerated conversion. Of course, in the current economic environment in Europe we have basically shut down all capex. In fact, our capex spend in those countries is less than its depreciation. We do not anticipate that to be the long-term situation in Europe; we expect customer confidence to renew, and we will start opening and refreshing more stores and spending more capex in Europe at some point.

And then a very important part of our capex spend is the amount of investment that we are putting into technology and digital, and many of the solids that you have seen today in terms of a digital wallet and connected devices are all coming out of that technology budget which is round about the £0.5 billion mark. That is quite a big chunk now of our investment, and we see that as an important part and growing further going forward.

Your question really got to a specific point which is: what is the normalised level of refresh programme? In the £2.5 billion numbers Chris showed what we are spending in the UK, and then if you took the maintenance spend and what we are doing in terms of refreshing large stores around the rest of the world it was around an £800 million to £900 million number. Philip was actually out in Asia last week and was telling us some of the experiences that he was having looking at our Malaysian stores and our Korean stores and Thai stores, how well they are responding to the refresh programme that Trevor is driving. But for the foreseeable future I would not really want to give you a specific number on normalised refresh, because I think as the UK gets through its refresh programme there will be an opportunity to start allocating more capital to refreshing international.

Then finally on cash generation versus returns, it is a very good question. It is something I would really like to go away and ponder on a bit more before I respond on a stage like this, but do remember where we are coming from: we were not generating any cash at all with the exception of selling some of our properties, and we have had to sell close to £7 billion worth of properties over the last five or six years to actually maintain and bring down our debt over the last few years. So, for us to actually start producing cash generation – and I feel very confident that that is what we are going to start delivering in the medium-term – I would like to see where that normalises out and what would be a realistic target for us to share with you on that point.

Philip Clarke: Thanks Laurie. So, on the UK brand and the issues with the pricing and functions and everything we have got to do?

Chris Bush: Millions of customers shop with Tesco every week and every month so I would argue that the brand is not damaged, but I would agree that we have work to do to change the perception of the brand in the eyes of many. I think that has to start internally with our colleagues; if you really want to evolve a brand and get the brand to be loved, to get it to be chosen rather than just used, the experience that customers have in our stores, mostly in our stores, has got to be the right experience, and that means we have to start with colleagues. We have to show colleagues the right level of investment, the right level of care, the right level of intention and the right level of leadership. We have to get the culture in the business to be focused on colleagues and customers as I have mentioned earlier.

Then, of course, there are the physical things like the store environment. If customers are walking into a store and it is tired and it is old, they do not feel quite as good about the brand as they would do if they are walking into one of our refresh stores. If you look at the research that we have done in those stores that have been refreshed over the last two years, the brand perception change of that store is absolutely incredible.

Then, of course, it is all of the plans that you have heard today. It is improving the quality, it is improving our price, it is making sure that our ranging is appropriate. It is everything that you have heard from me today. But I think the one message I would leave you with is it starts internally. It has to start through the right leadership of our colleagues, and our colleagues have really got to be clear and supported to do their very best work for customers, so that they do what matters most for customers everywhere.

Philip Clarke: We had a core purpose at Tesco which was to create value for customers to earn their lifetime loyalty. It served us beautifully well for a decade and a half, and two years ago we said there is a new one now, and it is one that you can all understand if you work with us and we would like you to make this happen for us. It is: we make what matters better together. There are about 800 of my colleagues watching this on the webcast at the moment, and I wanted them to do that because I wanted them to hear your questions and I wanted them to realise more than ever the prize here for this company. The brand has to improve, but it does not improve by me shouting about it, it does not improve by what I say here. It improves by what they do, and what these guys do, and that is what we are after now.

That is absolutely what we are going to do and it will take us a bit of time, but we are walking more softly these days and our strong views are being shared more quietly these days. I think big business has to change; it has to do the right things more often. I am not saying we did not; all I am saying is the world changed and we are changing, and this walking softly, sharing your opinions more quietly, getting those people watching from Tesco to go and make what matters better, is what we are going to do.

Bilquis Ahmed (JP Morgan Asset Management): There were a couple of charts that showed the improvement in the price perception, and also some comments that you made about the appreciation of the increased quality and so on, but the scale was not shown on the chart. So can you give us some sense of whether the base level of appreciation around your price perception, around your quality and so on, is at a point that you can grow from, or are these incremental improvements that you are showing still getting you to an acceptable base level from which you can then grow further?

Philip Clarke: Thank you. Well, Tesco is for everyone, and we are in the pack on these measures these days. What we need to be is better than that, and we do not think we can do that in a year. We think we can make improvements every year, and that is how we motivate our people; that is what we want to see them do. They are the measures they have to look at. But we are not laggards in the way that we were. We know we have a lot to do yet. I still go into stores and find the shelf edge pricing different to the till pricing; customers still find it. The processes are being worked on, our colleagues are working harder at these things. It takes time.

We are very pleased with service improvements and very pleased with quality improvements. Chris has shown the price perception improvements; we are doing something about pricing right now. Simon Belsham is here, who runs Tesco grocery home shopping and the extraordinary work we have done there to improve their customer delivery assistance service. Rob is not here, but on GMO – general merchandise online – we are a year ahead of where we thought we would be, but there is a lot for us to do, and that is why we talk about medium term; we know we have a lot to today, but we are getting on, we are doing it, and doing it a bit faster.

Xavier Le Mene (Bank of America Merrill Lynch): I have three questions, if I may. The first one, on online: you are reporting the profit for the first time, as far as I remember, and you have got 5% EBIT margin with your grocery online. So you are saying that all the costs are there, but also the store costs for instance included in the calculation you made, and do you think the 5% EBIT margin for grocery online is sustainable going forward?

The second one is about your price investment. So you are talking about £200 million; how will it affect your price architecture so far between the value line, the branded goods, the national brand, so where are you putting the money in another extent?

And the last one is just on promotion; promotion has been a drug, I think, for suppliers and food retailers for quite a while now, so how do you think you can move the promotion level down actually going forward?

Philip Clarke: Well, I am going to let Robin talk about the sustainability of online grocery home shopping, because he is the guy who wanted to show you the numbers; many of us did not want to do that, but he thought it was necessary in order to then elicit this sort of conversation that hopefully you and he are going to have. On the price investments, I think we will give that one to Chris, and on the promotion drug, I will just do that one now.

I have met with the Chief Executive Officers of five of our biggest multinational suppliers in the last three months, and we have the same conversation: 'The UK is too high-low priced, what are we going to do about it?' So, we have started the conversations. The first ten years of my career I was filling shelves, so what did I know about that? Let us talk about the last 30. In the last 30 years at Tesco, whenever anyone has decided they are going to go from high-low to EDLP it does not work. So if we are going to make any changes, we are going to make them very, very slowly and very carefully, and that is why this is our medium-term aspiration.

But I am very encouraged by the conversations that I am having now with the CEOs about what we can do to create more value. I mean, that is the real answer here: how do you create more value? How do you avoid the price being so high and then running on back margins? It is a very difficult thing to do.

Robin Terrell: On sustainability, first of all, in terms of the actual costs that are in there, yes: the store costs related to the operation are in there, so that is in the cost that comes up with that calculation. As I tried to articulate – and I think it is important that you refer to slide 62 – actually increasingly, the individual businesses and their channel profitability or individual profitability of different businesses we have will be less and less relevant over time.

If I talk about another example where a customer is in a shop and they are looking at a general merchandise item, for example, they go on our general merchandise online website to look up details of that information. They look at customer reviews of that information about that product and they then get comfortable around that product based on the customer reviews and information they read, but then they buy that item in a shop. Well what has actually driven that decision? So, how do you allocate the sale in that case, right? Because at the moment, in the traditional way, that goes through the shop till, but obviously this is about a customer and it is about a customer interaction with Tesco where the digital channels are working closely with the physical channels to actually provide a great experience and close the transaction.

So, increasingly with the blurring boundaries in customer behaviour actually trying to tease this apart, you are in danger of making really bad decisions because you do not take into account that overall customer behaviour. I think in addition to that, going back to slide 62, we can see – and this is just two of our online services as well; this slide could be much, much busier with many, many more services and business lines – the more and more we engage with customers and we get customers and we satisfy customers across a broader range of products and services that only we can offer, then the more valuable they become to us over time and the more loyal, which obviously creates returns in the future.

Chris Bush: So, on pricing, I will go back to the principles of our pricing policy, which is to be trusted to have stable prices, be logical and be competitive. So on your question about the hierarchy, it goes without saying I think that if we are investing £200 million on ensuring that our essential pricing is more competitive then we need to make sure that the hierarchy surrounding that is also logical.

Philip Clarke: Yes. It is exactly the point that we have been really working hard on in the last couple of years: how do you make sure architecture of pricing and ranging is logical and consistent and stable? But we are not going to talk right now, unfortunately, about where we are making these investments – we would very much like our customers to see it first – but we are acutely aware of this need to hold on to an architecture that makes sense. Chris and I will remember standing in front of the baked beans section for about three hours having a debate about it as we got pulled around by others pricing and matching and stuff, so a different way of doing it has been in practice now for quite a while.

James Tracey (Redburn Partners): You have mentioned a new focus on pounds not percentage margin as a measure of success, and you also have the medium-term guiderail of mid-single-digit trading growth. How do you reconcile those two objectives? Does that mean you need to see mid-single-digit like-for-like to achieve the mid-single-digit profit growth?

Laurie McIlwee: The main focus is cash margin, as you allude to. That was in the presentation, but it is not exclusively cash margin. Also, in the context of your question, yes, the majority of our profit growth will come from our sales growth, but the medium-term guiderails are not just about the UK, for instance; they are about the group. So, there is a combination of new store growth in Asia and like-for-like. It is predominately like-for-like growth in the UK because we are not opening many stores.

However, boosting that like-for-like is the acceleration of our refresh programme, particularly around the big stores. As you know, the GM transformation has been a drag on like-for-like for the UK business now for quite a while. Chris showed charts that showed that will be materially completed by the autumn of 2014. So, that is going to help. We are not getting any growth in central Europe up until this quarter, actually. We have had a reasonably good quarter in central Europe. So, it will be a mixture for the group but predominately profit growth will come from sales growth and therefore from cash-margin growth.

James Tracey: You have spent a lot of capex in the past. You showed a lot of the charts there. That capex has contributed to a lot of like-for-like and total sales growth. So, where do you see the medium-term top line growth on your new £2.5 billion capex?

Philip Clarke: It is from all of the above. It is from this multichannel, seamless, connected business which, in the words of Chris, is getting its mojo back. My colleagues who work in product development are talking about creation, innovation and differentiation now.

Standing here three years ago, I would not have been able to say we have a media streaming business that has 600,000 books on any device. You can see that multiplying effect that Robin could talk about for another three hours if we let him. We have not even added that to it yet. We have been investing in the creation of a personal current account at the bank. It is a big investment. dunnhumby is growing quickly. There are many sources of growth for us. We are now just a bit more confident about investing back in this core and absolutely determined to have the right blend of price, quality, range and service.

These are medium-term objectives because the near-term is a bit uncertain, as you have seen from the last few years. Look at all the retailers over Christmas who were in our traditional set and the challenges that they have faced. So, there is no simple answer to these things – I wish that there was – going back to Laurie, when he said, 'It is false precision.' So, we will not get into that anymore. We will set out our stall by a medium-term set of objectives and make the business better now because that is really what we have to get on with.

Frank Walding (Goldman Sachs): I have a couple of questions. Just to flesh out on the capex guidance, can I just be clear whether that includes the contributions you are making into the China JV or whether it excludes that number? Can we just be clear? I know you alluded to it a few times, but is that a gross capex number, i.e. sale and leaseback would be after that? Does it include any provision for potential acquisitions that you would consider, domestically or internationally?

Online, you have given profitability on an aggregate basis, but could you say whether your dark stores are profitable? Could you give a sense of what your delivery cost per order is, because you alluded to having some advantage there? Sorry, that might be ambitious. I will ask a broader question. Do you feel able to deal with – in your current capacity and solution – that kind of long tail that we think about in eCommerce?

You have mentioned marketplace in the slides. How many sellers have you encouraged onto that platform? How does that mesh in with your store pick? Is it conceivable – and I realise that there is a lot of uncertainty – that the industry needs to shrink its large store capacity?

Philip Clarke: This is similar to a meeting with the Chairman, by the way. The fact that you are sat in front of him – you might have been fed some of those lines. Well, is it conceivable that the industry needs to shrink? If you look at some of the projections for the UK – its population growth, its GDP growth – on a ten- or 15-year view, we might not have enough capacity in total retail but I think it will be taken up if it is required by the growing convenience and the growing online. I just think that. I have set out my stall: I am not opening as many big stores. Others will do what others will do.

On this long tail of eCommerce and the sellers, if you are talking about having a load of stuff that only sells in ones and twos, you deal with that through sellers. We have a number who have come onto our platform, but it is not perfect yet and it needs a lot of backend work. You cannot actually be a seller and Click & Collect in the Tesco store yet. However, as you saw from Robin's ambitions, we are going to get there.

That is the way we are going to work: we want to offer our sellers certainty that we are not going to cherry pick from them, because I do not think that is right either. That is how we are going to deal with that. Half a million lines are available through sellers in Tesco today and I plan to do more but patiently. Critically, let us get that hour delivery. If we can get that hour delivery, that will be so, so powerful and convenient for our customers.

I am not going to provide you with the details about online aggregates and delivery costs to order and so on. It was a good try and I appreciate it. Then there were three questions around capex, gross capex and acquisition provision.

Laurie McIlwee: The capex guidance that we have given does not include acquisitions, but we do not really have any acquisitions that we are planning to do at the moment. I am not saying that we will not do any, but we certainly do not have a plan to do any acquisitions at the moment. In a way the China question is related to that, because we do have a stage payment in our joint venture into CRE and we have the final payment of that once the MOFCOM approval comes through. Of course, I will update you on that at the April preliminaries.

The capex number that we have given you – the £2.5 billion – is the gross amount of capex that we intend to spend organically in the business, and has not been netted down or anything by sale and leasebacks. You will know that our sale and leasebacks are pretty much tailing down to a very *de minimis* level, almost halving every year as they have done for the last three years. I hope that covers your questions.

Fabienne Caron (KeplerCheuvreux): I have two questions. The first one is about online. Because you are dropping the cost of Click & Collect, do you expect to shift from home delivery to Click & Collect? Is it fair to assume that it would be positive for margin?

Can you talk about your staff? You put more staff on the ground. You train them. How has the life of the store manager changed? Do they get more financial incentives to do a better job? What has changed for them?

Robin Terrell: We are going to drop the price of Click & Collect but we are also going to drop the price of delivery costs. It is very important that that does not get missed because that is fundamentally the number one barrier to shopping more online for any customer in any category. If that did get missed, I want to make sure that it does not because we are absolutely making a commitment to lead in that space. We have a phenomenal position in this market at the moment and we want to make sure that we continue to lead it and leading it means leading on delivery price. That will not just be the price of the slot. That will also be the Delivery Saver itself. So, we are dropping the prices of Delivery Saver and we are also offering that no-risk guarantee to customers. Effectively, it is a no-brainer from a subscription perspective because if they do not use the service to get value they will get the difference back and free Click & Collect. It is a massively compelling proposition for customers that we believe will allow us to continue to lead the market as a consequence.

Chris Bush: Interestingly, we have an internal survey of our staff that we conduct every year called Viewpoint. In the last two years we have seen such a significant positive increase in the way in which our store managers view working for Tesco. They say they have the tools to do the job, they have more colleagues working in their store to serve customers and they are clearer about their role now than ever before. What we try to do with our store managers – and it is still a work in progress – is disconnect their role from the day-to-day process of running a shop and connect it back into the things that really matter most, which are motivating and inspiring our colleagues to serve customers brilliantly well. I have to say that they are doing a great job in responding to that and I think we are starting to see the benefits of that coming through.

Philip Clarke: So, in terms of customer viewpoints, call back and win back, when a customer makes a complaint, a contact to one of the call centres, the store manager gets details of the customer. If the customer is prepared to be spoken to by the store then the store's job is to call back the customer and win back their loyalty. Much of customer viewpoint is a measure every month of every store – not mystery shopping, but their customers. All of the colleagues in Tesco, all the leaders in Tesco, including us, have undertaken training in our leadership skills which we rearticulated for this new era of retailing a couple of years ago. We are renowned for our resilience and our responsiveness, but we need to re-express that in terms of the new era.

There were three skills that were absolutely vital that we felt we needed: greater levels of innovation for everybody in the company, much more collaboration and more empathy, because life is more difficult for everybody. It is more frantic. Work expands to fill the available space. Most of the UK store managers have been through that training and that is starting to percolate through the organisation, but it takes time and we are on it.

Rickin Thakrar (Espirito Santo): I have a couple of questions. Can you just talk a little bit about the framework for rolling out Harris + Hoole and Euphorium? It seems like those stores are being developed inside of London. Can you expand that outside of London? Would that not put a lot of supply chain pressure on those operations? If so, do you think that proposition would be as appealing outside of London as it is inside of London?

The second question is about how much of a competitive threat you think B&M is to your offer – some, little or none at all?

The final question is on Poland. Can you just give us an update on what you are seeing currently in Poland in terms of your price investment? Is any of the resilience from the traditional formats there?

Philip Clarke: We will update you on Poland at our preliminary results announcement which is only a few weeks away.

I do not really want to talk much about current trading. I see the discounters in all their guises as competitive to Tesco, whether it is B&M or Poundland or Lidl or Aldi. Look at the dollar stores in the US and how they have grasped hold of market share. So, yes, I see them as competitive.

On the rollout, it is H+H, Giraffe and Euphorium really. You are absolutely right. In the case of Euphorium and the Tesco bakery project, it is going to really start in and around London. We are opening out new craft bakery centre early in the summer, which gives us substantially more capacity to be able to do that for more stores but it is in the south east. On Harris + Hoole and Giraffe, my dad was in Brookfield yesterday and had breakfast at Giraffe and a coffee in H+H. If they do not open in Liverpool, I am going to be in big, big trouble next year. So, we are planning seriously to give them a bit more infrastructure in order to be able to go further.

Giraffe is the one that is best placed; it is already in Dubai, although Tesco is not going there except for F&F franchise. However, it is in Leeds. It is up in Scotland. That has the capability and the capacity. H+H are a bit more challenged. We are doing a lot of work though with the existing 350 coffee shops that we already have and we have a great partner in Costa. That is a terrific brand and, brilliantly well for us, was one of the inspirations for us working with the Tolleys and finding our own because of the very attractive returns that are available from those sorts of businesses. These brands are constrained in the near-term, but not in the medium-term at all.

Stuart Price (JPMorgan Asset Management): My question revolves around the sustainability of the dividend. You cannot, or will not, give guidance on free cash flow generation in spite of your cut in capital expenditure. The hope is that your operational cash flow will improve through the growth in sales. What is the thinking about the dividend? Why do you think it should be sustained at the current level rather than you cutting yourself a bit of slack, at least near-term, and seeking to alter your policy?

Philip Clarke: We recognise the importance of the dividend to our shareholders. We have a very well-covered dividend. We have a strong balance sheet. We are going to strengthen that. It really is a matter for the Board, not for me to speak to today. If we felt there was a need for a change, we would be telling you. We are not telling you there is a need for a change today.

Thank you all for your patience and for your questions. We will see you in just a few weeks' time in another place. Thank you.

[END OF TRANSCRIPT]