

The six strategic drivers

An update on our six strategic drivers.

Our six strategic drivers will create long-term value for all of our stakeholders.



1.

A differentiated brand

A strong and differentiated brand creates long-term value for every stakeholder in our business. Our purpose, to serve shoppers a little better every day, is at the heart of what our brand stands for.

Over the last year, we have continued to build trust, and have seen a 5 point improvement in customer recommendations of our brand.

We continue to focus on products and services which make the Tesco offer unique, and this year we have relaunched our core and *finest** food ranges, as well as introducing new brands which are exclusive to Tesco, such as our Hearty Food Co. ready meals, and our Fox & Ivy homeware.

Food quality is a particularly powerful driver of supermarket choice, so strengthening customer perceptions of our food is a priority. Our Food Love Stories campaign has continued this year, celebrating the food our customers love to make, for the people they love – and helping increase customer perceptions of quality at Tesco, up 2.7 points year-on-year.

But the way customers feel about our brand is defined by more than just our products: it's also about how we respond to the issues that matter to them, from healthy eating to reducing plastic packaging – and the value that Tesco creates for society.

In May 2017, we held our first ever health month for colleagues and customers, including helpful 'little swaps' with products that are lower in saturated fat, salt and sugar, and recorded our highest ever score for customers saying that Tesco helps them lead healthier lives.

2.

Reduce operating costs by £1.5bn

We continue to simplify our business and reduce costs, with in-year savings of £594m – and £820m of savings to date towards our £1.5bn ambition.

We have reviewed every aspect of our operation to identify opportunities for savings – with a particular focus on our store operating model, where we have delivered £541m of savings; logistics and distribution, with £104m of savings; and goods not for resale, where we have made savings of £174m.

We continue to encourage a cost-conscious culture, finding savings so that we can reinvest for the benefit of customers.

We have also simplified the shopping experience for customers, at the same time as reducing costs, for example by increasing availability of our Scan As You Shop self-scan handsets – now in over 500 UK stores and beginning to roll out in Central Europe – and making till receipts optional in our smaller stores, which has generated savings of around £3m.

We have also made strong progress in reducing the costs of procuring goods and services not for resale, finding synergies across the Group. In particular, we have improved our services in facilities management, freight and media services, while also delivering savings of £50m.

3.

Generate £9bn cash from operations

Our focus on free cash generation continues, and Retail cash generated from operations increased by £495m to £2,773m this year, driven by improved profitability and strong working capital management.

One example of our work is in reducing stockholding, by improving the way we receive deliveries from our suppliers.

To minimise our environmental impact, and reduce transport costs, we order full trucks of products from suppliers whenever we can – which sometimes means 'rounding up' an order.

However, by analysing our orders forensically, we have been able to sort stock between trucks and identify where we can eliminate a truck. This removes unnecessary journeys for our suppliers, and allows us to take out unnecessary 'rounded' stock.

Because we are ordering only what's needed to ensure great availability, our customers can buy what they want, and we can order less.



4. Maximise the mix to achieve a 3.5% – 4.0% margin

To achieve our 3.5% – 4.0% margin ambition by our 2019/20 financial year, we continue to build sustainable profitability across our businesses, channels and product ranges. By carefully managing the combination of volume, mix and cost-effectiveness in our business, Group operating margin for this year was 2.9% – up 57 basis points.

In Asia, our margin has grown to 6.0%, as we have stepped back from unprofitable bulk selling in Thailand. This was a deliberate decision that we took at the start of the year, allowing us to focus on serving our core retail customers better, and increase profitability.

In our online business, we are improving the economics of our offer, while giving customers greater choice and flexibility. For example, we have extended our delivery saver subscription service, to introduce new monthly plans – offering a great value option to our most loyal customers. We have also extended our Click & Collect options – including same-day collection – with slots at a range of prices so that customers can choose the service most convenient to them.



5. Maximise value from property

Our property portfolio across the Group is significant, and we are looking at opportunities to better use our space for the benefit of customers, while also releasing value where it's the right thing to do for our business.

Over the last three years, we have released a cumulative £1.4bn of value from property proceeds, at the same time as increasing our proportion of freehold property in the UK & ROI from 41% to 52%.

In the UK, we are exploring a small number of opportunities to work with a third-party to re-develop our store sites in high-value locations. Our Hackney store in London is one such example, where we have sold the site for a mixed-use development – allowing us to release value, while still retaining a store on the new site and with continuity of trade throughout.

We can also create value for our customers by using space in new ways, as we repurpose space in our larger stores – and this year, we have repurposed 1.1m sq. ft. of space. In Central Europe, we have worked with partners to bring a new offer to customers in a number of our stores – and this year, across the region, we opened ten shop units with H&M, and three with Decathlon.



6. Innovation

To serve our shoppers a little better every day, it's important we listen and respond to their needs, with innovation across every aspect of our offer, and a strong pipeline of ideas to come to market.

We have innovated in our product ranges – for example, with the launch of our exclusive Wicked Kitchen range of plant-based dishes, including new ingredients and exotic preparations such as carrot 'pastrami' and eryngii mushroom 'bolognese'. The range responds to increasing demand for vegetarian and vegan food, and since its January launch has proved extremely popular with customers.

As customers look for increasingly convenient options to do their shopping, this year we became the first retailer in the UK to offer same-day grocery deliveries nationwide, and in London – through our Tesco Now app – we can deliver within an hour.

And at Tesco Bank, our award-winning Tesco Pay+ digital wallet continues to prove popular with customers, with over 450,000 downloads of the app.