

Dave Lewis and Alan Stewart interviewed for colleagues by store manager Mark Kanaris.

Full Transcript:

Mark: *So today's headline financial figures are considerably less than expected. What are the reasons and what's gone wrong?*

Dave:

Well today's numbers are indeed very significant and they are not numbers we are happy with at all. There are a number of very significant reasons for that. Perhaps I will talk about some and I will ask Alan to talk about others. I think first and foremost what these numbers represent is the crystallisation of the relatively poor trading position of the business, indeed over a little while not just in the last months of the year. What we have had to do is recognise the impact of that poor performance on our business. Part of it is the profit that has happened in the year and part of it is a whole series of non-cash adjustments that we have had to make as a result of that ongoing performance.

I will ask Alan to talk about some of those one-offs in a minute.

But the one thing, the only thing, as we look at those big numbers and everybody talks, quite rightly, about what a significant set of numbers they are - there is one thing I would ask colleagues to do. Which is, in that detail, in everything we say, separate out those one-off adjustments which recognise our poor performance of the past and focus on the improvement that we are seeing in our business performance in the fourth quarter and what's happened since October, where we have steadily improved our underlying performance as a business.

That's what's important, that's what we need to focus on and be confident about the future, but at the same time as we do that we are facing into some under performance in our business, which is longer than last year and means we have to make a series of adjustments in our financial reporting – one-offs as they are called, and Alan can tell you a little bit about what they have been.

Alan:

Yes, so the one-offs' large element is due to property. What I should also say is that these are non-cash items, so whilst they are very big numbers they are non-cash. They represent monies that we spent in the past that we now don't think we will get value from.

A large part is property, it's to do with the external environment, to do with our own trading performance and we need to improve that trading performance. It also relates to some of the sites we are no longer going to develop and relates to a more cautious and prudent way we are looking at our stock.

Mark:

So I have been with the company for 10 years next year and you have both been with the company for just over six months. I have seen more change in perhaps six months, than a lot of years before. So when you started six months ago I am sure you had a plan. Was the plan then the same plan as it is now?

Dave:

Well I think Mark, honestly, six months ago we had a plan or a point of view about what it is we wanted to understand, about why the business wasn't performing and I think I speak for both of us, that we have obviously found some challenge in the business, that we wouldn't have known about before and we have obviously had to adjust because of that. Having said that we set out three priorities for the business as we thought about how it was we wanted to improve;

- The need to improve the competitiveness in the UK
- To address the issues we see in the balance sheet, we are doing some of that again today
- And to also rebuild the trust and transparency in the brand

And those three priorities have served us well and they will continue to guide us in the short term. It does mean we have had to make a lot of change. I have to say, people have been fantastic about that change and how people have engaged with it.

But those three things will continue to drive our business now and in the most immediate future. Alan, I don't know if you want to say something about a couple of those and I will come back.

Alan:

So, the priorities of regaining competitiveness in our UK business; we've seen as Dave said at the start, we've seen an increased number of transactions, more customers are coming through the door and they're buying more with us. We see that in volumes, we are seeing volume uplift in the business.

And also the measures which we have spoken about in terms of service and availability and which we highlighted back in January, we have continued to see. Maybe not the initial improvements that we saw then, but they have held at that level and in some cases they have increased.

So those are the key measures from a customer's perspective and that's key to improving the competitiveness in the UK.

We also said that we would strengthen the balance sheet and we've spoken about the look at our property values in terms of the one-offs and we have also done a pretty exciting deal with British Land where we swapped 21 stores which were in a joint venture. We now own those totally ourselves and therefore we control those and we can control what happens in those stores, we have reduced rental pressure and therefore we can operate more flexibly. Those are some examples of where we have strengthened the balance sheet as well as increasing the competitiveness.

And then trust and transparency is the third one which Dave might want to add on.

Dave:

I think part of today and the results and the way we have recognised all the one-offs in the accounts and non-cash one-offs in the accounts, is about getting transparency into the business case so people outside of our business can understand it, perhaps a little easier than they were before.

But the element of trust I would focus on is that element of the brand, the relationship of our business with our customer, particularly in the UK business; it has been about re-establishing. The two things I would point out in that, where I think we are starting to make some progress is in the area of the absolute experience in store. The reason we started with availability and service is because that was the bedrock of everything. The improvements that Alan has talked about really start to make us a dependable ally for customers, we don't let them down when they come and that's a very important thing. And we can see that in all the transactions and in the footfall.

But also in things like price integrity and being clearer. We said what we would do is improve availability, improve service and selectively invest in price. And we have been doing that and we have seen the response of that coming back. People find us more dependable, reliable and more competitive on price and that building of trust is something we have to do every day, but we have definitely made some real progress in that.

So those three priorities and a little bit of progress is very important as we recognise some big numbers today but an improvement in the underlying performance of the business that we can start to build some confidence in.

Mark:

We have heard recently that there have been large changes internationally in Europe and increased speculation around our businesses in Asia. Clearly this will be of concern to those colleagues, so what would you like to say to them today?

Dave:

I would say to them a continuation of what I think I have been saying since I started, which is Alan and I are indeed looking and will continue to look at a full business review for the whole Tesco group and will do it against the priorities we set ourselves.

We are under no pressure, we are under no obligation to do anything rash or impetuous, in any way shape or form, so for colleagues who read speculation in the media about what we may or may not do the only thing I would reassure them to do is relax, don't speculate, as soon as we are clear and as soon as we have made a decision I will ensure they are the first to know.

Having said that, what are we doing now? We are focusing on improving our business. So the biggest single change that has been there in international is the one you mentioned. In Central Europe, Trevor and the team have taken on to look at a business which, thankfully, in the last few months is starting to see more positive signs of sales improvement, but does have a significant challenge in terms of profitability. What Trevor and the team have done is review that business and designed a simpler and more effective way of going to market in the countries in Central Europe and that is the change that Trevor has communicated.

It is a significant change, it is the right change and it gives us the opportunity to take money and reinvest it in a similar way as we are doing in the UK in order to improve the customer offering.

That's the most significant change that has happened internationally and what colleagues should do, is be confident that whilst we look at all options for our business going forward when we do make a

decision about anything that we might want to change they will be, absolutely, the first to know about it.

Mark:

And what about Asia specifically?

Alan:

When Dave and I went around the Asia businesses last year we saw some tremendous businesses. That's the first thing I would call out and some of the things we saw there are truly transferable into other parts of the world and we can learn in other parts of the world from what we saw there.

The markets there are good, strong and they are growing and that's what we want to commit to. Clearly there have been trading difficulties in each of the markets that we are in in Asia, and we need to work our way through those. But our Asian businesses, as a whole, are businesses which we see great value in and see great potential and we are there to support them.

Mark:

We have heard this week that we are about to start colleague consultation relating to the closure of the existing pension scheme. Clearly this will be very emotive for our colleagues and also their families. What reassurance can you give regarding the change?

Alan:

The letters have gone out and the consultation has started. I think the key thing I would like to say, is that what we will do is give a competitive, market competitive, fair pension for our colleagues going forward. When we look at what has been in the past, the risk we were running of not being able to meet the commitment we want to make by continuing with the existing pension arrangements, are just too high and that is something we have had to face into and that's why we are starting the consultation. I am very clear over the 90 days we want feedback, we want to hear what people feel, we want them to take that into account and we want to deliver something that is fair and competitive to all of our colleagues.

Mark:

So we've talked a lot about change, and colleagues have gone through a lot of that in the last few months. And if I think back to my first day with Tesco as a Christmas temp, that unfortunately was one of the stores that was closed in the 43. So I think colleagues are aware that more change is on its way, but what would your message be for all our colleagues moving forward?

Dave:

There would be two and I think the first one is actually something of thank you. Since I've been here and I'm absolutely sure Alan would say the same thing – we find ourselves in a very difficult situation, in a great business that's not performing.

But in the way that we've engaged with colleagues around, this is the situation we see, these are the facts of where we are, and this means therefore that we need to face into some pretty difficult

changes. I personally have been humbled and blown away by the way people have reacted to that. And the speed with which people have engaged and actually said “do you know what? I might not like it, but I do understand it;” I haven’t met anybody who has said it was the wrong thing to do. I wish we weren't doing it, but I can't argue with it being the right thing to do. And the way people have engaged with that is really, really humbling, and I feel like I should always be saying thank you to people for the way that they do that, and the way that they push you when you know that it needs to be done to get on with it. And I've never felt anything like that in the way that I feel it in the Tesco team.

In the second part of your question is, focus on the customer. As things change I think you need to trust us that we will be setting the future direction of the business, looking for the sustainable future. There are some encouraging signs that the changes that were happening are working and moving us in the right direction.

The best thing for all of us in change is to be really good at what you do, and what are we good at? We're good at serving customers. And customers will answer 90% of the questions we have for ourselves, if we do that better than anybody else.

If somebody walks out of a store every day with the service that they didn't expect from us, we'll be fine, we'll be absolutely fine. And if they can carry on engaging in the way that they have up to now, more than fine.

Mark:

I think a lot of our team are proud actually, even during this time.

I know that when, this isn't a question by the way, but I know when I speak to my people they are very much behind what's happening even though it is difficult.

When I talk to my customers in my store every day, they are delighted on what we are doing with price, I can assure you.

They can see the investment in service and what an improvement that does create for them. They do ask me a question, which I promised to Vera that I'd come and ask you today. Which is the golden question: What's next for Tesco?

Dave:

It's a surprise, it's got to be a surprise! No seriously - I think what we have to do is take what we've been doing now, because look, one of the beautiful things, and you can say this to Vera for me is - the answers, the things that we've been doing are the things that colleagues in store have been telling me we ought to do when I joined. So they were the architects of the changes we made and they'll carry on being. So part of the answer is tell me what you need, put the customer at the centre, ask ourselves if we do it better than anybody else, and if we don't what are we going to do to close that gap and get ahead. And as we identify those things, and we do have a few things in mind to bring to the market. I'm particularly sensitive and secretive about not giving the competitors any headway in that, and I'll probably stay paranoid about that going forward and I hope colleagues will understand that. But a continued investment, anything we can, anything we identify where we can

be better for customers, he and I will try and find the funds and the means with the executive team to be able to make that investment. And that's all I can say, I really wouldn't want to tell the world what next initiative was going to come, I want our customers to feel it first.

Mark: Thank you