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Transcription

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Speakers: Dave Lewis and Alan Stewart

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Presentation

Operator
Good morning and welcome to the Tesco plc First Quarter Trading Statement 2016/17 Conference Call. Throughout the call, all participants will be in a listen-only mode, and afterwards there will be a question and answer session. Just to remind you, this conference call is being recorded. Today I'm pleased to present Dave Lewis, CEO. Please begin your meeting.

Dave Lewis
It's obviously a busy day for all of us, so why don't I get straight to the detail and then Alan and I will take your questions.

Overall, we're pleased with our first quarter results. We've delivered a second consecutive quarter of like-for-like sales growth across all parts of the Group, as we continue to remove reasons for customers to shop elsewhere. Like-for-like sales for the Group grew by 0.9%. Like-for-like sales for the UK and Republic of Ireland were up 0.3%, with International up 3%.

Focusing firstly on the UK, our recovery continues to be volume-led. Volumes in the quarter were up 2.2%, driven particularly by food. Our new, exclusive fresh food brands are performing very well and contributing to this result. Two thirds of customers have now bought at least one product from our Farms range. Customer ratings for the quality of fresh food overall have improved to their highest level in more than two years, with customer satisfaction scores for quality and taste on the new brands exceptionally high at more than 90%. By trading into the new brands, customers are able to save around £1.60, which is approximately 17% on a typical basket of ten of the most popular fresh produce and meat lines. This combination of great quality and outstanding prices has contributed to a strong relative volume performance in the two key categories of produce and meat. Combined, these categories have outperformed market volumes by around 5%. As a result, we've delivered the good performance we reported this morning, despite a deflationary impact of around 0.7% on total UK sales, purely from the investment in these new brands.

In addition to our investment in fresh food, we've continued to make other improvements across the customer offer, supported by further optimising our store operating model and the ongoing transformation of our supplier relationships. Availability continues at record levels, following our 18% reduction in range last year, and we're working collaboratively with suppliers on initiatives to improve efficiency, leverage scale and reduce cost to fund further investment and continue to rebuild profitability.

On price and promotion, we first set our plans more than 18 months ago, as we recognised that customers wanted lower, more stable pricing that they could trust. From that point on, we've continued to direct promotional spend into lowering shelf-edge prices on the lines that matter most to customers. In total, our spend on couponing was 38% lower than in the first quarter last year, and the number of products on multi-buy promotion was down by 42%. As a result, including our investment in fresh food, and underpinned by brand guarantee, the total cost of a weekly shop is now nearly 6% lower today than it was in September 2014.

The broad-based momentum I referred to a few moments ago includes a strong continued performance in our International business. We've now delivered positive like-for-like sales growth in both Asia and Europe for four consecutive quarters, supported by improvements in our customer offer. We've seen a positive customer response to a stronger fresh food offer in all of our markets, and have continued to step up the pace of product innovation, particularly in Central Europe.

In addition to the good trading performance and progress we've reported this morning, we've also made a number of other announcements in recent weeks. Businesses like Dobbies and Giraffe have developed great brands, but we need to be very disciplined in where we choose to deploy our capital and other resources, and as such we feel their future can be best developed under new ownership. We've also announced to colleagues this morning that we're selling Harris + Hoole for the same reason. Another great brand built by great people, whose potential we believe can be better fulfilled as part of Caffè Nero's business. The sale of Kipa in Turkey was slightly different in that it was a food retail business, but in truth we were a small regional player in a large market, and although the business has made progress over the last year, it would've required a significant strategic investment, with all the associated risks, in order to enable the business to compete independently. These have all been big, important decisions, and ones we've not taken lightly. However, making them allows us to place even greater focus on our core retail business, and I'm excited by the potential I see there.

Looking forward, the retail market is likely to remain challenging and uncertain. However, despite the competitive and economic landscape, I'm confident that our improvements are working. We stabilised the business and started to generate growth. We've built a strong operational foundation on which we can successfully overlay new customer propositions, such as our exclusive fresh food brands. The customer remains at the heart of every decision we are making, and he or she always will be. We are growing volumes and transforming the way we're working together with our suppliers. In doing so, we're becoming more competitive at the same time as rebuilding profitability in a sustainable way.

In summary, whilst there's still plenty to do, I'm encouraged by the start we've made in the first quarter. Thank you for your time, and with that, I'll hand back to the Operator and take your questions.

Q&A

Operator
Thank you. Ladies and gentlemen, if you would like to ask a question, please press 01 on your telephone keypad. If you wish to withdraw your question, you may do so by pressing 02 to cancel. Once again, please press 01 to register for a question, and there will be a brief pause whilst questions are being registered.

Our first question comes from the line of John Kershaw from Exane. Please go ahead, your line is open.

John Kershaw
Hi, good morning guys. Hi.

Dave Lewis
Morning, John.

John Kershaw
Just a couple from me. First of all, just on the Farm brands; perhaps you can – clearly an important part of the proposition change, but – perhaps it's my inability to do maths, but if you're saving 17% and you're deriving 0.7% deflation, that implies they're over 10% of the overall basket, which sounds pretty incredible. So perhaps put me right on my maths there, and more broadly talk about how customers have been engaging with that brand.

Secondly, multi-buy down 42%. Very impressive, but overall, promotional penetration into – including price cuts, can you perhaps flesh that out; see what the penetration level is and where you think you can get it to?

And finally, just – clearly, unusually for a trading statement, there's quite a little bit on efficiency gains and sustainable profit potential. Perhaps – I don't expect you to give us a number, but perhaps give us a sense of how things have – how you're thinking and the pockets of saving you're seeing has evolved in the last months?

Dave Lewis
Okay, John. Why don't I do this: what I suggest is, why don't I let Alan talk to you a little bit about deflation, because we understand the need to get some clarity on some of the numbers, and I'll come back and talk a little bit about the overall promotional approach.

Alan Stewart
Yeah, John, if it's confusing, then let me explain. We're not saying that it's the maths, as you explained it; what we're saying is that 17% is on the typical basket of ten items, and if that's – so that's what the customer would shop, to give you an idea of its kind of savings. So it's not a mathematical trace-through, it's an example of what a customer shopping and what a regular customer would get, and that's why the maths doesn't work, as you explained it.

Dave Lewis
That's right.

Alan Stewart
And the 6% down since September 2014 is the important number. Again, from a customer's perspective, that's what they would see and that's what they would be experiencing, a 6% lower sales.

Dave Lewis
Yes. And it comes back, John, to that commitment to try and get the shelf-edge pricing simpler and lower, and that's what plays into the promotional approach as well.

So look, I think there isn't a number I can give you in terms of where the optimum level would be. I think what we've tried to do, John, and we see it working for us, is pick the promotional strategy which is most appropriate for how it is the customer wants to engage with the category. So in some places, removing them completely and having a simple and what everybody calls everyday low price works very well, and that's what they would want, but in other categories, actually promotional activity is very much appreciated. So we're just being much more deliberate and mindful about what it is the customer wants, and that continues to be the trajectory.

And to your last question: you know, we were keen to say that we still had investments to make in the first half of this year. We've made them; they're significant in terms of the Farms brands, in the way that we've tried to illustrate. But as we see the consensus out there this morning, and Alan and I would say that we understand and recognise the consensus as being a good steer.

John Kershaw
Okay. I was thinking a bit longer-term than that, but –

Dave Lewis
I know you were!

John Kershaw
But just on the promotional penetration: if you take the big picture, Sainsbury's is telling us they're down to low 20s percent promotional penetration; the sort of Kantar data on that suggests you're something still a good deal higher than that, so I'm just trying to – not to say one's right and one's wrong; clearly one helps – promotions help drive sales in the short term, so try and just colour that in a bit more. Are you still in the high 30s?

Dave Lewis
Okay. Yeah, if you're talking about the participation rate in Kantar, you'd see us more in the high 30s. John, the – and I know you know this, but it's worth saying: it's as much about looking at the frequency and the depth of promotion, because I think there's actually more dynamic in what's happening in terms of depth of promotion, rather than whether promotions are happening or not.

John Kershaw
Sure.

Dave Lewis
And I think what you see is the level of discount which is in there is lower, and because of our range being broader we'll end up with a participation rate on average which is higher than some of our competitors. But for me, I'm looking at participation levels and depth, and it's the depth which is actually the bigger dynamic for us.

John Kershaw
Okay. Thank you very much.

Dave Lewis
Cheers.

Operator
Our next question comes from the line of Edouard Aubin from Morgan Stanley. Please go ahead, your line is open.

Edouard Aubin
Yeah. Good morning guys. Just two questions from me; one on Harris + Hoole and one on Thailand. So, on Harris + Hoole, I think the press is talking about the chain losing around £25 million for the fiscal year ending March 2015: so should we assume that the losses were more or less the same magnitude last year? And why shouldn't we expect, you know, consensus to move by that, you know, magnitude – i.e. around £25 million – since you're selling the chain?

Alan Stewart
Yeah. I think the short answer to that is because the £25 million which you're referring to was published just a year out of date, so it's nothing like that. So I really wouldn't – it's not – look, it's a business, the purchaser didn't request confidentiality on what they paid for it, therefore it's – we haven't said what's being sold, but it's not a material business in terms of moving the numbers for this year.

Edouard Aubin
Okay, that's very clear. And on Thailand, I guess, you know, that's an important market for you, and clearly your top line has healed[?] much more positively in recent quarters. And my question is to what extent, you know, are you benefiting from the disruption at the market leader Big C, which has basically changed owner there?

Dave Lewis
Look, I think, honestly, the benefit that we're seeing in Thailand – same approach in Thailand as we have elsewhere in the Group: our focus in on the customer. So when we view plans and I talk with John and the team in Thailand about what it is we're doing, all we focus on is how are we serving Thai customers a little bit better every day? And in fairness to them, I think they've done an extremely good job. If that happens to be while other changes are happening the marketplace, then so be it, but our focus is very much on Thai customers. And you've said yourself, we're pleased with the progress that we're making.

Edouard Aubin
Okay, good.

Alan Stewart
And if I just remind you that in the fourth quarter of last calendar year, that Thai business achieved its highest-ever market share, and that was before there was anything in the market about that business even being potentially disposed of.

Edouard Aubin
That's a good point. Okay, very clear. Thank you.

Operator
Thank you. Our next question comes from the line of Bruno Monteyne from Bernstein. Please go ahead, your line is open.

Bruno Monteyne
Hi, good morning.

Dave Lewis
Hi Bruno.

Bruno Monteyne
Three questions from me please. You always said that, you know, Tesco didn't really lose customers; it was all about frequency and, I don't know, giving people a reason to shop elsewhere. So in your trading behaviour of those Farm brands, do you see people shopping more frequently and therefore bringing an entire basket back, rather than just buying a bit more of the cheaper fresh food?

My second question is on the positioning of Farm brands. When I go in the stores, clearly on some products, whether it's, like, carrots, there is no more a standard carrot and no more a standard potato; it's Farm brand and you can trade up if you want premium. But in other areas like meat, you still have a standard mince beef and the Farm brands; it makes the Farm brands mince beef look like it's an inferior option than the standard. I'm confused by, you know, such different positioning, even with the 70 products; can you explain it a bit?

And the third thing is quite a few retailers in Europe have started this one-hour delivery from a local store, you've probably seen Carrefour and Sainsbury's doing something like that: are you planning to experiment with a one-hour delivery from a local store within Europe and UK anytime soon? Thank you.

Dave Lewis

Okay. So Bruno, why don't I start? In terms of customer dynamics around the basket, around Farm brands: so look first thing that's happening is exactly what we'd expect to happen: given the quality – and the key thing is the quality – and the price of the farm brands, we did see people trade down into – existing customers trade down. We knew that that would happen; that was always going to be the first thing that would impact, and we've referred to the deflationary impact in the statement to highlight it.

In terms of basket dynamics, in terms of switching, what we said to ourselves is we'll review what the absolute impact has been in six months' time, because we want to see two or three purchase cycles to be able to track that behaviour. What I can tell you at this stage is that we have seen the basket size increase. The 5% volume beat versus market on produce and meat tells you all you need to know about the impact that we're having in terms of volume bought in our stores. As to whether that's is attracting new shopping trips, I'll wait until I see two or three more reads [?] before I'd like to pronounce on that, but what I can tell you is that, as Tesco, we are attracting shoppers from all other fascias, and that shows an improvement in the competitiveness of our offer. So I'm encouraged by the source of gains that I'm seeing across the business more broadly, not just about the Farm brands.

In terms of your second question, what we try to do is be appropriate to the category. I have to say the feedback that you have about the confusion is not at all what customers are saying; they see a role for the hierarchies that we've put together. And, you know, what we have done is we've put the brands back into a normal – so they're non-highlighted, so they've become very much a standard part of the offer, and that's an appropriate thing for us to do once we've launched them. And now what we'll do is what we do with everything, is we'll monitor the sales and, if there is a changing pattern, then we obviously have an ability to adjust the range. But I reviewed it only last week, and so far, so good across them all, and I'm happy that the customer understands it.

In terms of delivery, we're experimenting with lots. The idea of one-hour delivery from local stores is not high on our list, but we are trialling same-day delivery on grocery home shopping more broadly in a number of locations around the UK.

Bruno Monteyne

Thank you.

Dave Lewis

Thank you.

Operator

Our next question comes from the line of Rob Joyce from Goldman Sachs. Please go ahead, your line is open.

Rob Joyce

Good morning guys.

Dave Lewis

Morning Rob.

Alan Stewart

Morning Rob.

Rob Joyce

Three from me. Firstly, just obviously on the wire saying you're comfortable with consensus. Can you say what that consensus number is at the operating profit line you're talking to, and whether this factors in any competitive response from Asda across the rest of the year?

Second one is just on Fuel Save, and how they may have impacted or not these numbers. Can you give us an idea of how much Fuel Save was in the base last year, and when we should expect that to come out of the base?

And finally, just if you could give us the online sales growth number for the quarter, that would be great. Thank you very much.

Dave Lewis

Okay. So I think the – when we talk about being comfortable with consensus, the consensus number we see at operating is £1.176 billion.

Rob Joyce

Okay.

Dave Lewis

So that's the number in which we're referring. In terms of – and no, there's no future competitive reaction; it's based on what we know, so it's sort of ceteris paribus in that sense.

In terms of Fuel Save, you're right in terms of – you know, we were clear when we discontinued it, it had some small impact in terms of some of the definitions; it goes back to the IFRIC things. We took it out in the third quarter of last year, so any impact that that were to have – but I stress it's not material – is going to be in the third quarter of this year.

And in terms of online, the growth number is – he says, searching for his –

Alan Stewart

It's around – it's relatively low. So what we've suggested, if we can just step back from it, Rob, and just remind everybody on the call what we're doing in the online: we're very clear that what we're wanting is to establish the value proposition from a customer perspective, and hence we increased the minimum basket size last year from 25 to 40, having reduced it to 25. The impact of that we've seen is something that we're very clear that customers understand that they're getting something which is valuable and which they, below a certain level, will be paying for. And so we've seen some slowing in the online and we've continued to see that, but there is still growth in the online part of the business. It's at economics which we're more comfortable with, and we'll continue, though, to understand and to look at how customers react in this dynamic world. Just to remind everybody, it is still around 7% of our business.

Rob Joyce

Okay. And then it makes a lot of sense to target the profitable business, but it's fair to say it's now low single digits?

Alan Stewart

Yeah, agreed.

Dave Lewis

And Rob, just to reinforce what Alan says, we think that's a more appropriate level. You know, destroying value by deliberately targeting disproportionate growth in a small part of our business is something we don't think is sustainable, given the Group more broadly.

Rob Joyce

It makes a lot of sense, I totally agree. And finally, just on that: have you seen – I mean, it's very, very early stages, but have you seen any, sort of, Amazon – in any of your data can you see any sort of Amazon impact?

Dave Lewis
Not at all.

Rob Joyce
Okay. Thanks very much.

Operator
Our next question comes from the line of Sreedhar Mahamkali from Macquarie. Please go ahead, your line is open.

Sreedhar Mahamkali
Yes, good morning guys. So three questions from me then. Firstly, perhaps you've talked about it – I was just getting cut out earlier on – deflation: can you explain – it looks like underlying, if you strip out the Farm brands contribution of 70 basis points in this quarter, quarter-on-quarter it's improved meaningfully. Can you explain what's driving the better underlying trend now? First question.

And secondly, the other side of the coin of course, which is volume. Again, quarter on quarter, Q4 to Q1, UK volume is down circa 100 basis points. If you could talk a little bit about what's happening there, and which categories have actually moderated[?] a little bit? Perhaps seasonality, Christmas was very strong and all that stuff. If you can explain that, that will be helpful.

And last one: you've talked about integration of Tesco Direct and F&F in terms of the customer website. Talk a little bit about what the objectives here are. The main thing I'm looking at is: how does Tesco Direct become less of a significant drag than it currently is in terms of profits? What is the plan here in terms of what you're trying to do with Tesco Direct specifically please? Thanks.

Alan Stewart
Okay. Shall I take deflation, Dave, and then you take the next two? So in terms of deflation, it's not a direct read-across in terms of what it is; our underlying deflation and what we've seen is pretty much what we saw in Q4. In the quarter we've reported, it's just under 3%. There are always some small adjustments between the numbers, and it's never an absolute mathematical read across the deflation, the volume and the like-for-like. So, underlying of just under 3% is what we're seeing. So, slightly less than Q4, but pretty much the same trends. And if you look forward to what we're talking about, the outlook, we continue to see deflation.

Dave Lewis
And in terms of volume, I think you touched on part of the answer yourself. So, actually we look at our volume performance versus the market, and we look at like-for-like volume performance and that's what we talk about. Clearly, there's a seasonal impact in Q4. There's also been some seasonal impact in mix in Q1: you know, the timing of Easter and other things have changed around, so there is some real detail around what's fallen where. But what it is we look at is we look at our volume performance versus the market. And actually, we think our volume performance versus market in the first quarter is strong in more than 90% of the categories in which we operate. So actually, we think our volume performance in Q1, if anything, is relatively stronger than it was in Q4 of last year, when I look at it versus the market.

And in terms of the integration of Direct and F&F, you're quite right. The thinking behind this is simple, which is: you know, if you put the customer at the centre of everything you do, then asking a customer to keep engaging in your business in multiple contact points is not the most convenient, it's not the most efficient way of doing it. So, what we want to do is make Tesco a more joined up experience for customers. It's very much more efficient for them, efficient for us, in every part of the business model, be that in the marketing that one would do online, the communication you would do online, but also very importantly in how it is we can then fulfil and satisfy logistically the demands that customers are placing on us. We talked in previous times about the investment we've made in Fenny Lock, to bring together our Direct, our F&F and some of our other online businesses so that we could put fulfilment together. That's the direction of travel that we see. It's economically more sensible for us as Tesco, but more importantly, it gives a – the intention is to give a more seamless experience to the customer, who really only wants to engage with Tesco once and not multiple times across multiple sites.

Sreedhar Mahamkali
Sorry Dave, if I could quickly follow up: what has actually changed in terms of the supply chain for Tesco Direct? Has anything changed?

Dave Lewis
Yes, it has. So we put together – so in the past, the fulfilment models for – let's keep it Direct and F&F and, dare I say it, wine by the case and what have you – were all completely bespoke. We've brought them together; we've made an investment in a fulfilment centre, which is near Milton Keynes. It's called Fenny Lock. We brought it on stream in November of last year. And that allows us in a much more efficient way to be able to consolidate orders and fulfil the Direct and now F&F orders that we're receiving. So, that's the big change that we've done.

And in terms of the front end, we've consolidated the platforms; in the past Tesco Direct had its own internet platform, F&F had its own internet platform and so on and so forth, and we took a decision to consolidate those to make it easier for customers as well.

Sreedhar Mahamkali
Thank you.

Dave Lewis
Okay?

Operator
Our next question comes from the line of James Tracey from Redburn. Please go ahead, your line is open.

James Tracey
Morning guys, three questions from me.

Dave Lewis
Hi James.

James Tracey
You've mentioned that Farm brands' deflationary impact on the overall UK was minus 0.7%. Could you please comment on the volume impact?

Are you able to comment on the like-for-like in the big box stores?

And the final question is: food commodity prices are going up at the moment and sterling is quite weak, so why does that not translate to more inflation by the end of the year? Thank you.

Dave Lewis
Okay. In terms of the 0.7%, I think I said in the start: if I look at the volume performance of the Farm brands, if I look at produce ad I look at meat, our volume performance of a little over 5% versus the market shows a significant outperform. So actually, it's the 5% that you should focus on for the Farm brands.

In terms of large format stores, you know the trend that we've seen of them not being the drag continues. So they're slightly negative in Q1. We'll give a much bigger update at the half-year, as we normally do. But there's nothing material. The trend that we've been talking about has continued, as we've put more money and more effort into customers not needing to shop elsewhere. We've seen a positive reaction of that in our Extra formats.

And in terms of your comments on inflation and sterling and commodity prices: clearly we have a future sourcing arrangement, we have hedging arrangements. We're not seeing inflation in our cost price, and therefore you're not seeing inflation in any sort of market pricing. So, as Alan said earlier in the call, actually our outlook is that deflation continues into the near term, you know, notwithstanding anything that might happen because of changes in the political dimension and sterling.

James Tracey
Okay. Are you able to comment on how much of your overall mix is Farm brands? What proportion of the overall volume is Farm brands now?

Dave Lewis
No, we wouldn't give that level of detail, but we're really happy with the level of participation. It's actually been almost exactly what we predicted it to be. So, when I sit down and do the post-launch review, actually we're bang on where we hoped we would be and so we're really very happy. But we wouldn't give a – you know, it's a little bit too competitively insightful there, I'm afraid.

James Tracey
Okay. Thank you very much.

Operator
Our next question comes from the line of Niamh McSherry from Deutsche Bank. Please go ahead, your line is open.

Niamh McSherry
Morning all.

Dave Lewis
Hi.

Niamh McSherry
A few questions from me. The first one, just going back to volume. You talked about volume being strong in 90% of categories, and stronger you think than Q1. But relative to the market, what do you see market volume as and are you above or below market volume?

Dave Lewis
Yeah, my comment Niamh, is based actually on an external panel. So if you look at IRI, they track category performance and they track our performance relative to it. And if I look in the first quarter, in – let's call it nine out of ten categories – our volume performance in those categories outperforms the market.

Niamh McSherry
Okay.

Dave Lewis
So that's where the comment comes from.

Niamh McSherry
Thank you. Then with regards to online groceries sales growth, can you give any information on how customers that are – I guess in terms of the slower sales growth, whether customers are coming back into store more or whether those customers are basically choosing to shop online someplace else? Whether that's anything you can tell from your Clubcard data?

Dave Lewis
We can definitely tell; we can definitely tell. So as we moderate the offer in online – so, first and foremost, the other thing, just to get the context right is, actually, all of the customer satisfaction and loyalty measures in grocery home shopping are positive and strong. We've just changed the offer around those who tend to be more promotionally promiscuous in terms of their – and therefore less loyal. So actually, as we've modified the offer in the way Alan was talking about, actually the customer profile of our online businesses has actually got stronger, which is sort of what we hoped and what we wanted to have happen.

But what we do see is that, as people drop out because the promotions and the unique offers are not there, indeed they do come back to the store. So, that's – you know, I've talked before about being more joined up in thinking about one Tesco, and that is getting to a place where I don't see my online channel competing with my stores; I see it as a complementary service, and that's what we've been doing in terms of aligning the offer. So people who were shopping online for unique deals and for volume-driving initiatives that were unique online, when they're not available they do come back to the store.

Niamh McSherry
Okay. Just one on clothing and general merchandise: can you say what your clothing sales growth is and general merchandise sales growth? And maybe what size clothing is within that?

Dave Lewis
I don't think we've given that level of detail before. The only little insight that maybe when we get to the half-year, when we talk about, we'll give a bit more. What I would say in deference to my clothing team is they're now on their fifth consecutive quarter of like-for-like sales growth. So I'm actually quite impressed with what the team have been able to do in clothing.

In general merchandising, much more affected by seasonality. So a small decline in the first quarter, but a relative performance versus the market that I'm okay with. We have to make some changes, particularly – I touched on in an earlier question – as we go through consolidating Tesco Direct; that has an impact on general merchandising online. And we're in the process of that transformation now. So probably more to say in the middle of the year, really.

Niamh McSherry
Okay. And then just moving to promotional activity. You talked about maybe depth of promotion being as important as products and promotion, so maybe you can actually tell us what's happened to your depth of promotion?

Dave Lewis
So from the answer I gave earlier, you'd realise that what we've done is – you know, as we have lowered the prices – so let's put this back into the context we talked about before. Since September of 2014, we have lowered the prices for Tesco customers by nearly 6%. And that's been about redirecting some promotional activity into base prices, it's been about saving some money elsewhere and putting it into the base price, and trying to get simpler, clearer prices that people can trust.

We then put promotions on top of that. But given that we've lowered the base so much, the level of promotional discount we think we need, right, is therefore less. So customers get it, they understand that. They don't want to be driven to be buying promotions in categories where they don't really want the extra volume. And therefore we've had a very positive feedback to the change in the promotional offer. So depth is being reduced, but frequency is being changed quite materially and that's why we shared the numbers with you.

Niamh McSherry
Okay, so you've given the number of – the reduction in the number of products on promotion. You're not telling us what the actual volume on promotion is, but the depth is also down. Is that right?

Dave Lewis
Yeah, we've modified the depth. And look, I'm sure you can understand why that sort of level of detail would be gold dust in a competitive scenario, yeah?

Niamh McSherry
Okay. And then, sorry, just one more clarification on that one. Then the 6% reduction in pricing is obviously before any promotional activity, or excluding kind of couponing and promotions?

Dave Lewis
It's like-for-like basket pricing from September of 2014 versus where we were as we closed out the first quarter.

Niamh McSherry
Right. And then the last one is actually on Ireland: are you doing the same type of thing in Ireland as you are in the UK, in terms of the investment that you mentioned in the statement? Or maybe you can tell us what's happening there.

Dave Lewis

Well, the same principle is across the Group. In Ireland, what we did was we took stock, we put the customer right back at the centre and we changed the offer. So you'll see similar investments in Ireland in categories and brands that matter most of customers, and we've seen a similar response in the Irish market to the UK. It started about six months later that the UK, because we started here for understandable reasons first. But I've been really very encouraged by what I've seen from the Irish team since they've been implementing that approach and strategy. And you've seen some of the numbers today.

Niamh McSherry

Okay. Thanks very much.

Dave Lewis

Thank you.

Operator

Our next question comes Xavier Le Mené from Bank of America Merrill Lynch. Please go ahead, your line is open.

Xavier Le Mené

Yes, morning gentlemen. One quick one, as most of my questions have been already answered. Just on Farm brands, you're currently saying that you've got a massive price investment. You need, of course, a volume uplift and you're pleased with so far the results. And you say you are in line with your expectations. How long will it take, actually, for you to get the volume uplift that will offset the price investment you made? Is it a one-year investment, a two-year investment? Ballpark, can you give us, you know, some indication on when we can expect investment to be offset by volume?

Dave Lewis

Well, look, we've made – you know, all the comments we've made about consensus take account of how we see the trajectory through the balance of this year. You know, the answer to your question would be incredibly detailed were I to try to hit every part of it, because, look, quite a lot of this depends on how it is we work with our supplier base. So in some places, we've been able to make price investments that we could recover by just running the business differently together. And some where we've just taken a reduction in margin to achieve the price and the quality that we wanted. And then we have to work together to find a way of offsetting that. In some cases, those programmes are three months or sometimes they're six months; sometimes they have to wait for the season to come around again to see the benefit of it. So it's not as easy as the question might suggest.

All I would ask you to understand is that we look at the offer in its totality, we make strategic price investments where we think it's most appropriate for the customer and then we try and recover it in the way that we run the business. And that's what we've done for the last 18 months. It's what we will continue to do over the next months and years. And I'm really very happy with the way that the dynamic in fresh and in produce is working with our partners as we make the investment. So really quite happy where we are, but to be able to say there's a break-even point on this volume at this time across 76 different lines, I'm afraid I'm not in a position to be able to do that. It's not how I run the business either.

Xavier Le Mené

Thank you.

Operator

And as a reminder, if you would like to ask a question please press 01 on your telephone keypad now.

Our next question comes from the line of David McCarthy from HSBC. Please go ahead, your line is open.

David McCarthy

Good morning, gents.

Dave Lewis

Hi, David.

David McCarthy

Hi. A few questions. First of all, on Brand Guarantee: can you tell us if the amount of rebates you're giving at the till has changed versus when you first introduced it? So, what I'm trying to get at there is: has your relative price position improved or deteriorated versus the competition? Using Brand Guarantee to do that.

Next question, online, simple: is it profitable? And can you talk about the difference in the growth rate of Click & Collect and home delivery?

Then on Farm Fresh, is this a concept that you could extend? And I'm thinking here that when Value lines were introduced it was – I can't remember, it was 96 or 98 lines, and obviously became hundreds and hundreds of lines. So, is it something that Farm Fresh can be done into other areas?

And anything about repeat purchases; you know, because as you know, Dave, it's all about trial and repeat. And I heard your comments on going through two or three buying cycles, but people tend to buy carrots quite regularly in my experience.

Dave Lewis

They do indeed.

David McCarthy

Yes. And then finally on Project Reset: you've had an 18% range reduction; ballpark, what percentage of sales did that cover? And where I'm coming from here is I'm trying to look at the volume increase per line that you've got remaining, because that's obviously important for you. Well, you know where I'm coming from there. And also what do you anticipate phase II of the Reset is going to do, ballpark, to your range? And that'll be enough to get on with.

Dave Lewis

Thanks very much, David. Right, Brand Guarantee: rebates are definitely lower than when we started. So short answer to your question: yes, our relative price versus competition is getting tighter, and we see that in a lower level of rebates.

Online, in the way that we look at it, David, it – we consider it still to be profitable, but we'd be open about the fact that it's less profitable on a like-for-like basis than it was a few years ago, particularly as the market has competed away the cost of delivery.

In terms of Click & Collect, we see somewhere in the high 70s of Click & Collect being within general merchandise. So actually online Click & Collect much higher when you get to GM and F&F than obviously we see in grocery. We do see some increase in grocery, especially when people are picking up both at the same point, David. But Click & Collect is a stronger dynamic in general merchandising and clothing than it is in grocery.

In terms of Farm Fresh, I understand your point. I think we will always go at this category by category. I think the best way I could answer your question is to say: do we think that there's still a significant opportunity in the way that we choose to present Tesco own label or exclusive brands to Tesco customers? Indeed, we do. You know, it takes time. It's a massive amount of work, but the idea that we put a disproportionate amount of effort into things which are unique and differentiated for Tesco customers at a range of price points is something you've heard me talk about before and, dare I say it, you'll hear me talk about it again. But whether that's a Farm Fresh concept, I would demur from that. I think it will be about what's appropriate for the category in the context of how customers shop that category.

The other thing you should know in terms of quality, David: I'm really delighted with the results that I'm seeing in terms of quality and repeat. My comment about wanting to see some – a number of shopping cycles is so that I can look across all of the categories and all of the interplays, both inside my own stores but also competitively before I come to a full conclusion. But the repeat rate on carrots, you'll be pleased to know, is really very high, as it is across a number of the 76. But – David, you would have your own measure, but a customer satisfaction on quality of a new brand like this, given where we are, in the 90s is phenomenal. So I'm really very happy with the quality, I'm really very happy with the repeat, but I'm not going to be drawn on the full switching analysis until we've let everything settle down.

In terms of – where am I – range resets. I honestly don't know the impact per line, so I'm going to look to Chris and say maybe we should come back to you offline as to that. I think the other thing I should say is – but I think you know it – Reset, we talked about 18% but we also put 2,000 new lines in. So just want to take the opportunity to talk about the innovation that we've brought. But the velocity per line, given what you've seen from the volume: David, we came off nearly five years of volume decline quarter-on-quarter. And the last three years we've seen – the last sort of five periods we've seen volume pick up. So our volume per line as we've simplified the range is obviously positive. But I honestly don't have the number on the top of my head, and I'll get Chris to come back.

Phase II for us is about optimisation. I think we feel that there's some places where we could have been a little braver now that we've moved forward. But it also allows us to take the principles of category resets into our Express formats, where I believe there's a big opportunity for us to simplify the shop for our customer and, dare I say it, the operations for my colleagues. So you'll see that roll out through the course of the summer. And I think that was about everything you asked me.

David McCarthy
It was indeed. Thank you very much, and have a nice day.

Dave Lewis
And you, cheers.

Operator
Our next question comes from the line of Nick Coulter from Citi. Please go ahead, your line is open.

Nick Coulter
Hi, good morning, just two from me please.

Dave Lewis
Morning, Nick.

Nick Coulter
Morning. Can I come back to your comment that you're attracting customers from all other fascias? Could you expand on that comment? Because I guess clearly that includes the discounters.

And then secondly on the operating model efficiencies, can you perhaps talk around the example of the changes that you've made to 24-hour opening, and kind of how that rolls through in terms of the cost profile and routines and night crews and replen, non-food etc.? Just to kind of give us a sense of the work that you're continuing to do on the cost profile. Thank you.

Dave Lewis
Okay, Nick, let me try and do that in as simple and direct a way as I possibly can. You know, Alan and I are on record back in September 2014 of showing that, in the prior 12 weeks and the prior 52 weeks, that as Tesco – whilst everybody was talking about discounters, we had an issue which was back then we were losing customers to all other retailers in the UK. So my comment of earlier is that if I look at the first quarter we see a reversal of that, and it's quite a broad return of customers. And my comment about attracting them from everywhere it is true. We would recognise, you know – the comment about the discounters is when you take away new store openings, but on a like-for-like basis we see ourselves doing well in terms of attracting shoppers back from the big four, and indeed the discounters, absent of those new openings. So that's where the comment comes from.

Nick Coulter
Thank you.

Dave Lewis
In terms of the operating model efficiency, you know, it comes from that sort of constantly wanting to polish the offer that we have, you know. We've done some work on 24-hour opening for example, and found that that's not the most economic way of running the unit. The actual sales in a number of places in the middle of the night is very low, whilst the costs of running the store are still significant. So we've just been – you know, it goes back to being very mindful store-by-store about the profitability, and asking ourselves how it is we finesse or optimise that offer. That's what Matt, Tony and the team have been doing. It's meant that we can change in a number of places, not needing to replenish our stores at night but we can do them during the day.

It means that I can therefore put more colleagues on the shop floor whilst customers are there, rather than having colleagues on the shop floor while nobody's there, i.e. during the night.

So, Nick, it really is about us optimising the way that we run our stores, thinking through customer service in location,   And the thing that I would say is you picked obviously what we've announced recently, but I'd just make the point that we still see lots and lots and lots of opportunities to improve the efficiency of the operation, to lower our cost and be able to reinvest that both in the customer offer and rebuilding our profitability. So watch this space.

Nick Coulter
Thank you. That's very clear.

Operator
And as a last reminder, if you would like to ask a question please press 01 on your telephone keypad now. There will be a further pause whilst questions are being registered.

Dave Lewis
I suspect that means that we have no more. Is that right?

Operator
There are no further questions registered, so I will hand back to you, Dave, for closing comments.

Dave Lewis
Thank you very much indeed. And again, ladies and gentlemen, thank you very much for joining us this morning. It's obviously a very, very busy day. I suppose my summary would be we're pleased with the progress that we're making. We continue to improve the operation and the offer. And the feedback that we get from customers, from colleagues and from our suppliers continues to be positive. We continue to invest in the business. We generate the volume from that and we are pleased at the momentum that we've been building continuing into the first quarter of this year. There's many more things for us to do, but I see that only as opportunity. But thank you for your time, and we may see some of you later at our AGM. Have a great day.

Operator
This now concludes the conference call. Thank you all for attending, you many now disconnect your lines.