Currys plc

Capital Market Day Q&A

4 November 2021

Transcript

Richard Chamberlain: Thanks Alex. It's Richard Chamberlain from RBC. Thank you very much for all the presentations this morning. Can I just ask maybe three things, if that's okay, to start off? First of all, can you just give a bit more colour on ShopLive, in terms of what's the target number of colleagues to be trained on that and how much of the range it will apply to? The second one is, maybe you can just talk about the sort of now future mobile proposition and what's the sales profit potential there?

And the third one is, developing this theme of partnerships. Do you think that you could see Currys partner more with some of the big brands to better leverage its store estate? So, if I buy something maybe direct from Samsung, do you think in future, I might be able to collect it from here or return it to Currys? Is that an opportunity for the group going forward? Thanks.

Alex Baldock: Thanks, Richard. Mark, do you want to pick up on ShopLive?

Mark Allsop: Sure. So, in terms of ShopLive, we have about 2,500 colleagues currently trained. They can all transact online. They can all co-create baskets with customers, so they are fully transactional. We will reflect the number of colleagues that we train based on demand. So, the minute that gives us enough demand or enough coverage for the demand but we are ready to train even more. In terms of the number of products that can go through ShopLive, quite frankly, they can all go through ShopLive. We're here to sell the same scale and range of products from store online through ShopLive. So, it's the same scale and range.

Alex Baldock: Thank you. Ed, do you want to pick up on FMO?

Ed Connolly: Yeah. Thanks. Hi Richard. So FMO, we're only really a few weeks into having FMO, our future mobile offer live. Alex referred to this as all upside and that's exactly how we're viewing it, but we have a very high ambition for it. It's been a pretty complex program, this one, it's fair to say. It's taken us a couple of years of really heavy lifting to get it live. And it's been a fantastic effort of will get the thing over the line. It is definitely the future, unbundled mobile packages is definitely the future. Postpay will not last forever, so this is for sure the future.

It works, it's live, we're serving customers. Every day, every week this gets stronger. We're learning about it more and more. We're getting better at refining it the whole time. And as I said, we have high ambitions and indeed, high hopes for it as well. One bit of good news that we had, we didn't know exactly how it would perform in the market, until we had it live. And then we've obviously had some very important new product introduced into the market and our FMO proposition really stacked up incredibly well and actually against 99% of the tariffs that are out there, our proposition, our new proposition beat them hands down from a value perspective. And that gives us real confidence about the future.

Alex Baldock: Thanks Ed. Just two things to that, Richard. On the ShopLive point, we wouldn't put a ceiling on where this could go longer term. Let's see, as Mark says, you know, we're driven by customer demand, but we're quietly quite encouraged by what we've seen so far. And of course, as you know, Richard, this is one place where the competitors just cannot follow us. I mean, if you're an unassisted online player, that's our preferred term for the online peer players, by the way, if you're an unassisted online player, then it's just unrealistic invest in the thousands of trained up colleagues and the fabulous stage sets that we've got to deploy to those customers online.

Alex Baldock: And the only other thing on FMO is that there are some ... As those of you who are close to this will know, there's some regulatory pressures that are tailwinds for our offer and that it's going to get harder and harder for other people who sell mobile phones, to continue to bundle together the handset and the connectivity and the implied cost of credit, in the way that Postpay currently does. It will force people in effect to unbundle and it will reveal the true value underneath. And as Ed says, our soft launch so far has come out in a very good place of us versus the competition. This is why people like Google and Apple and Samsung are backing our mobile proposition, as much as they are but this is all gravy because we've been super prudent in our planning but please don't interpret from that, that we're not getting behind it.

Alex Baldock: As for your third question ... Ed, do you want to take that one as well?

Ed Connolly: I'll take that. So, it's quite a short answer. Look, we've got very, very strong supplier relationships, particularly with some of those key brands that have appeared on some of the videos that you've seen today. We're always looking for ways to partner with the more, effectively to serve customers in better and better ways. The idea that you highlight is not something that we're ready to announce or that we've agreed but it's one of the ways that we could innovate in the future.

Tony Shiret: Hi. Tony Shiret from Panmure Gordon. If we're doing threes, here's my three. Net promoter score, 58 in the UK, doesn't sound that great, to be perfectly honest, even though it's higher than it was. Can you tell us if there's any spread on that number between store customers, online only or omnichannel customers and also, what sort of figure you should be targeting for that? Secondly, on marketing, Currys always been a quite highly promoted business, in terms of marketing. Can you give us some idea about digital marketing costs because presumably you didn't have to spend much on digital marketing last year because it was easy to get customers?

Tony Shiret: So, you've seen that pick up into the current year. Lastly, on the ESG presentation, I couldn't help but notice that all of the presenters have been male so far. I don't know if we're going to get a sudden late surge of females, but I wondered what percentage of your management group is female, executive management and just broader management and what your targets are for female participation.

Alex Baldock: On your third point first, Tony, if you want to get an answer from a female EXCO colleague, I'd just encourage you to ask a question about the people agenda or the supply chain and service operations because I'm sure Paula and Lindsay would be likely to oblige. So, we have two EXCO members who are female and we've got a very strong representation, even stronger than that proportion amongst the next layer of 80 senior management. But please don't take from that, that we're in any way complacent or we think that our drive on diversity and inclusion has reached its conclusion. It certainly hasn't.

Alex Baldock: And in common with many businesses, we have more work to do on that front. If I may take your NPS point very quickly, we haven't broken it out below that number. You're asking, are we satisfied with it? Of course not. But I think the 14 point improvement that we've managed to post over the past three years, does show that we're heading in the right direction and we can point to how we're doing it and we're going to keep doing it and we're going to keep working at it. Lindsay, where's Lindsay gone? Lindsay, do you want to talk about our work to improve the end-to-end customer experience?

Lindsay Haselhurst: Yeah. Thank you. So, I'll try to be part of the late surge and to talk about the NPS challenge. So, over the last 12 months, addressing the customer experience on an end-to-end basis, is really the challenge we've set ourselves. And that starts with, you won't be surprised, data, which involves analysing the points of failure and the points of dissatisfaction across each area of our business and mapping those through and really understanding where we fail our customers and where we create those points of dissatisfaction.

Lindsay Haselhurst: And clearly everything we've talked about today in terms of the online journey, the customer is at the heart of designing those. So, we've talked a lot about how we're trading it and how we're up-selling and up-trading but fundamentally, what has defined each of the core elements of our online journey, of our after-sales journey, starts with that customer in mind. How do we make it easier for our customers and how do we make sure that we are, we talk about right the first time, so designing the journey's right and looking at our end-to-end processes, so let me give you a couple of examples of that:

So, one of the ways in-store, when a customer came in and wanted to return a product, there's a requirement from our manufacturers to have an approval process. Which is really clunky for customers and time consuming and delay them being able to quickly and simply return their products. We've been working over the last 18 months, with our suppliers, with our store teams, with our returns teams to basically remove that from the process. So that it's no longer a requirement, so the process is significantly simpler, and therefore our customers are experiencing that much better.

Another great example of that is Mark and I working really closely in what we call big process optimisation. So, what we look at, the customer journey often starts in-store, we've talked about that today in terms of all the process, in terms of how we sell to our customers. But that journey extends way beyond the store, it goes into our customers' homes when we deliver, when we install. But it also goes beyond that in terms of our after-sales service and care, through repairs, through returns, through after-sales service fundamentally.

So, making sure we get it right at the beginning in our stores, so that we get it right when we get further down that journey, is where Mark and I now work really, really closely together, looking at the diagnostics to understand how we sell it right and how we build that into our life framework in the first place. And how do we ensure that in after-sales we're delivering on the promises that we make all the way through? So, if I'm honest with you, it's not particularly sexy. There's lots of really sexy, fantastic tools, but behind that is a huge amount of work on process mapping, on customer journey mapping, and on improving that end-to-end experience by just making it significantly simpler. I hope that goes some way to answering your question.

Alex Baldock: Lindsay, Tony did ask if we're happy with where we are on MPS.

Lindsay Haselhurst: No, no, no, no. So, it's quite interesting actually because Alex pushes me constantly why it's not better, and I push myself constantly, how do we as a team just keep driving forward. When we look back and see we delivered 14 points, I'm pleased with that. Do I think we can do 14 more? Yeah, absolutely.

Alex Baldock: Do you want to talk to digital marketing quickly, Mark?

Mark Allsop: So, in terms of digital marketing, we haven't seen any discernible increase in digital marketing. Namely because we're big, so we have a really strong awareness in the market. So, our organic awareness is already significant, so we don't need to buy our way to success with expensive PPC and things like that. So, our size really works for us, and also just to say that on digital marketing, we've all seen organisations that can spend their way to success and lose control.

Mark Allsop: We work closely with the finance team to make sure that we hold ourselves accountable for all our marketing spend, including digital marketing, and that it has to earn its way and have a strong return on investment, like any investment we make in the organisation.

Tony Shiret: Thank you.

Alex Baldock: Thanks, Mark. Thanks, Tony. Warwick.

Warwick Okines: Thank you. It's Warwick Okines from Exane BNP Paribas. I've just a couple of questions on the £200m headwinds and inflation that you've talked about, for the next three years. What's the rough split between COGs and OPEX, of that number? And then secondly, your strategy for pricing is very clear, not to be beaten on price. But how should we expect that to manifest itself over the next year, as you see higher prices coming through from manufacturers?

Alex Baldock: Let me take the second one first and I'll hand over to Bruce for the first question. Our approach on pricing is a really simple one, which is we won't be beaten, and you can see that for yourself around here today. And that's true in the Nordics, just as it's true here. And in a category like ours, which is elastic and transparent, that's a necessary precondition to be trusted by customers. What we're doing is we're successfully training customers not to feel the need to shop around, and we're also indirectly training competitors not to take us on, because they're finding that we won't allow ourselves to be beaten. When I say successfully, we're not flagging any need for any more proactive gross margin investment in price going forward. We're not.

Alex Baldock: Now, the new factor obviously are the inflationary pressures that are coming through, and we will see how those play out. One of the things though is the price promise to our customers will remain intact. But I'm not going to promise that there's going to be no price inflation being passed through to consumers because that may not be realistic. On the other point.

Bruce Marsh: Hi, Warwick. The simple answer to your question is that it's all operating expense, so when we're talking about inflation, we're not talking about cost of goods sold inflation. However, the slightly more complicated answer is that, of course within our gross margin as I described, so for example our services and our delivery & installation as aspects of our operating cost actually are cost of goods sold that appear within our gross margin. And I think on that basis, I would probably say that it's 1/3, 2/3 between COGs on that basis and OPEX.

Ben Hunt: Hi, there. Just related on the OPEX savings that you're making, how much cushion does that afford you to invest back into the business, to hit that 4% EBIT margin? And related to that, what is your assumption for the channel mix within that first question?

Alex Baldock: Bruce?

Bruce Marsh: Well, in terms of channel mix our assumption is that we maintain roughly where we are right now. So, you'll have seen within our trading statement this morning that we talked about circa 50/50, and that's the level that we're modelling on going forward. In terms of headroom, we've worked bottom up, so in essence we've been really clear on what do we think costs will do on a category-by-category, area-by-area, expense-by-expense, and we've worked that through. Similarly, we've then managed the savings through the same process, so it's not as if it's some rough figure. We have built it bottom up.

Ben Hunt: Second question is, your active customers in the UK are up 30 odd percent since 2018. Your sales up a bit, but certainly not by that magnitude, so by definition your sales per customer are down, quite significantly. What's really driven that trend since then? And how quickly can the measures that you're doing to grab share of wallet start to turn that around?

Alex Baldock: Well in one sense, to answer the second part of your question first and I'll let Bruce pick up the first, but in one sense we're already seeing the effect of the share of wallet gains activities that Ed talked to before take some effect. One example of that is the CRM driven sales, which from a relatively low base, already grew by 170% year-on-year, in the year that we're talking about. We've seen a more mature customer club in the Nordics, and we've seen the effect that has on repeat spend and in fact on gross profit per customer as well. Clearly these are very early days for our club equivalent in the UK, but the fact that we've managed to get 1/3 of UK households signed up to it in barely a month says something about our starting point and about the potential for this scheme. Bruce, I don't know what you'd want to say about the second part.

Bruce Marsh: Only in that, there isn't an easy answer to it. Because obviously, it all then comes down to mix, obviously customers are buying a whole variety of different products. They're choosing to trade up and down, and the one thing that I've learned through the category is that actually if, for example, there's price movements, it isn't necessarily flowing through in terms of inflation. Customers are then choosing how much technology they get for their product, so I don't think there's a straightforward answer to the question.

Alex Baldock: The only thing I'd add, on the channel mix assumption question, as Bruce says, we've assumed 50/50, and that's actually what we're seeing. So, since the store's reopened, it's actually nearer 51/49 stores, but it's settled at around that level. You ask us what we expect, it would be that. But I think as you heard in Bruce's presentation before, if we're wrong about that, and if the online shift accelerates further, we're confident we've got enough in the tank on the gross margin boosting initiatives that Bruce outlined in order to compensate for that.

Tony Shiret: Okay. And if I can have one more question. Obviously, the growth in SKUs could get significantly higher in the UK. What's the mix you ultimately envisage when you've done enough of your tests and repeating that will be either marketplace or stock that you are taking the risk on yourselves?

Alex Baldock: I might let Andreas pick that up from a Nordics' perspective, because obviously our Nordics' friends are further advanced than the UK on that extended range.

Andreas Westgaard: Yeah. So, thank you very much. I think that to be dynamic about how you range your products is the most important thing. We are successfully launching marketplace, and we're using marketplace actively to onboard and also to off board products. We're using it to test the grounds for products that could be part of our commercial offering going forward. And we're also using it for long-tailing products. And one of the good examples is, for instance in the mobile sector, there is a zillion different varieties of accessories that we would never try to keep on our own stock, so that's where a marketplace would be a very brilliant addition to the way that we do it.

In combination with third party distributors, which is products that are much closer to our core business, but not having them in our own warehouse because it doesn't make sense, typically B2B segments, where you have a lot of B2B products that is already kept in stock somewhere in the market. And then the products that are closest to us, the core products, we would definitely keep close to ourselves in our own locations, and also pushing them closer to the customers through local hubs, local warehouses, and also making sure that we can utilise the shop in store to fulfil very quickly.

So, having that flexibility within locating the product closest to the customer when it's time sensitive, and further back in the supply chain when it's all about efficiency.

Nick Coulter: Hi, it's Nick Coulter from Citi. From your focus groups, can you share the key reasons for customers shopping elsewhere in two out of three of their transactions? To your point around fewer reasons to go elsewhere, why aren't they making it into your funnel? Or why are they escaping from your funnel? And I have a follow-up. Thank you.

Alex Baldock: Nick, thank you. Ed, do you want to take that one?

Ed Connolly: Thanks Nick. Well, it's a very competitive market, as you know, and there is loyalty to other retailers out there. That's what we are trying to crack by improving our proposition in multiple ways. The key areas of decision making in this market are range, price, service, availability. These things move up and down across time. And as you've heard from multiple people over the course of the day, over the last period of time we've been slugging it out with the competitors.

Ed Connolly: What you've heard today is about our game for improving on all of that stuff and our game for locking people effectively more into our ecosystem in the ways we've talked about, using more data, using more services and with doing the retail basics better and improving our omnichannel game. So, all of those things we think are going to improve our market share and give customers basically fewer reasons to even consider going anywhere else.

Alex Baldock: That's right. And the one thing I'd add to that is, the other consideration here is the category that we're in. I mean, if you're a grocer where customers are shopping at you once or twice a week, the improvements that you make can be experienced by customers relatively quickly. I think in our case, we've held our hands up that in the past we weren't always sufficiently trusted on price. We didn't have the authoritative range that a specialist market leader should have. And as Tony points out, we've got some upside still in the customer experience.

Alex Baldock: Now, we're confident in the improvements that we're making and the improvements that are still to come as we've been speaking about all day today. But in a relatively low frequency category, it might be a little while before customers try us again. And that's obviously what we're seeking to do is, the next time they're in the market they're going to be in the market with us.

Nick Coulter: Thank you, that's clear. And then just a follow up on the range point, is there any structural difference between the UK and the Nordics that means that you can't or shouldn't follow through with the marketplace structure in the UK? Thank you.

Alex Baldock: The short answer is no.

Nick Coulter: Thank you very much.

Adam Tomlinson: Adam Tomlinson from Liberum. Just a follow-up question on that new metric that you've introduced, that likelihood to return. I know you haven't given an overall number for the group, but when you look at that, do you have any view on whether it's, if customers aren't shopping within that 12 month period, coming back within that 12 month period, whether they're going elsewhere, or whether they're just sitting there and not spending, and therefore you have that ability to drive frequency of purchase and a higher spend?

Adam Tomlinson: The second question on CRM. So, you now have that big database of customer data. And I'm just wondering if your systems and your infrastructure are where you'd like them to be in terms of being able to leverage the true benefits from that. So, you mentioned, for example, single view of customer, do you actually have that now? And are there any bottlenecks or particular areas of investment you need to accelerate that? And finally, just on the one Currys brand. So, having now moved to that, any early indications you're getting in terms of the benefits from that, whether it's around cross-shop of customer or customer acquisition costs? Thanks.

Alex Baldock: Thanks, Adam. I'll let Mark talk to the data infrastructure first, and then Ed can pick up on the LTR point.

Mark Allsop: Thanks Adam. In terms of the tech spend around data, as part of the transformation that we were talking about earlier, we've invested in a new Microsoft Azure platform where we are bringing all of our various different segmented data sources into a single place. Then obviously putting all of the protection and all of the robust controls around that to ensure that we protect responsibly that data.

Mark Allsop: So, happy with a single source of data. We will use every omnichannel interaction to collect even more data, earning the right to have a deeper conversation with our customers. So, all of those elements will then come into our Azure platform, which we will then be able to use to nudge our customers, engage with our customers and have a deeper conversation. So quite frankly, we've now got the right platform, we've got the right controls, we're getting the right data to allow us to nudge our customers and support our customers in the way that they need to.

Mark Allsop: Ed, I was handing over to you for the second part, which I'm hoping you remembered.

Ed Connolly: Let me check I did. So, is the question here, are we tracking LTR? And where we are not capturing returning customers, do we make the assumption that they're going elsewhere? Did I understand that right, that question?

Ed Connolly: Yeah. Right, okay. I think the straight answer, because it's a new measure, we don't know the answer to that for sure. But the way I'd answer the question is to say, we assume that if we don't capture the sale, someone else will. And we are very jealously guarding our customers and that loyalty that we have with them.

Ed Connolly: So we don't think for a second that if we haven't captured the sale, then the customer's just not buying. We're assuming we're losing that sale. And therefore we're very driven in the ways that we've talked about to do better for customers and make sure that we are enhancing our market share over time. So, we're really going after it in the way that you would expect from this business.

Alex Baldock: Adam, just to pick up briefly on your question on the brand. It's very early days clearly. I mean, and we haven't talked about publicly anyway about any early results. What I would say though, there are some obvious benefits that we expect to see and that you can assume that we will see, one is simply marketing leverage. Every time we put a pound behind Currys, clearly every part of the business benefits in a way that it didn't when it was fragmented between Currys, PC World, Carphone Warehouse, and Team Knowhow, all of which obviously now under one brand. I think the second part though, is what you've heard the strategy today and all our marketing efforts are designed not just to get credit for everything that we already do today, but to get credit for the business that we're becoming. And we want to be famous with customers, not just helping them choose the right tech, important though that is, but being there through the life of the tech to help them afford and enjoy it as we talked about. And that's something that we're on with. Do we have any more questions?

Alan Clifford: Just one quick question on the pension fund, am I right that you are cash matching with the buyback? So, if you do £10 million of buyback, you do a £10 million addition to the pension fund deficits?

Bruce Marsh: So, our pension deficit contribution is £78 million pounds a year. So, we will match the combination of both the dividend and the buyback. So, at the point that our dividend plus buyback was above £78m, we would have to match. Yes.

Alan Clifford: And then just one other question on the recycling, clearly, as you said, you are number one on recycling. Is there any plan at all to develop that into a pre-owned channel or would that just be too much in conflict with your, if you like your OEMs and the fact you are a new seller rather than a used seller?

Alex Baldock: We'll see. And no, it wouldn't present that conflict.

Alan Clifford: Great. Thank you.

Alex Baldock: Do we have any more questions?

William Geffen: Hi, I'm Will from LionTrust, are you seeing any supply chain issues with the chip shortages in tech? And if so, how are you accounting for that in the near term?

Alex Baldock: Thanks, Will, Lindsay?

Lindsay Haselhurst: Thank you. Will, I must admit I was expecting that question. So yes, let's be frank, we are. This is a global industry wide challenge in terms of the chip shortages. So yes, we are seeing some challenges. We've been seeing them for a number of months, but I guess the real question is, I guess it's twofold, isn't it? One, are we going to get our hands on the stock that we need to deliver our trading? And the answer to that is yes, there will be some exceptions. There are some product shortages. You will see some reduction in terms of the choice, perhaps that customers will see when they come into store, but actually the depth and breadth of the ranges that we have are actually pretty strong. Let me bring that to life a little bit. We would've wanted to be offering you a choice of 120 large screen TVs in store at peak, this year you might see a 100, 105. So, you can see there's a scale in terms of some reduction in terms of choice, but we have three real USPs, I think when it comes to competing around the availability in the shortages. The first is we touched upon a number of times, our relationship with our supplier and our size and scale, means where there is a limited supply of stock we are first in the queue and we're getting our fair share and perhaps even a bit more than our fair share, quite frankly. And that's something we're unashamed about quite frankly, is in leveraging that. The second is the key question I get asked a lot is, even you get the stock, are you capable? Have you got the people in your supply chain and in your retail stores to be able to service customers? And the answer to that is a resounding yes.

It's tough. I won't pretend this has been easy, but the whole team is on it. We acted decisively. We acted early and therefore we are well on track with the recruitment of the two and a half thousand additional colleagues that we need to deliver our peak trading and beyond. And I think the third, so what makes us perhaps, and we come back to this omnichannel model again, last year when our stores were closed during the pandemic, it was the supply chain that did the heavy lifting. And this year actually we're really leveraging our stores. So, we don't have four distribution centres. We have over 300 distribution centres. So, the stock that we have is in our stores and we're leveraging every store, every colleague to make sure we can get that stock into our customer's hands and boy oh boy are our stores a fantastic asset this year, better than ever been.

The third USP I say that we really bring into this, which is why we are so confident about ... particularly as we go into peak season, which is just a couple of weeks away. And I'm being quite brave because we are on this every day. This is not a given the third USP is one team. And maybe that sounds a little bit cheesy, but we absolutely learned last year during the pandemic, that the only way to thrive under this kind of stress and pressure within our supply chain is to not view this as a supply chain problem, but as a business problem. So, every single one of my colleagues who you've heard today, either here or out on the floor is part of the solution, looking at ways in which we flex absolutely across our business to make sure that we are delivering for our customers. And for me, that's absolutely why I'm super confident. And the measures that we have are telling us that our availability is better than our competition, because we're leveraging those three USPs. So, it's tough. It's really tough. And we're on it every single day, pushing and shoving for stock for people to make sure that we deliver for our customers. But fundamentally I think I can speak on behalf of all of us. We are really confident that we can deliver this and our plan reflects that.

Alex Baldock: Thanks Lindsay. I think that's a good note on which to finish. All I would say is that all of that being said, and clearly we are confident because we've reiterated our confidence in the trading statement today. And we believe we're on for another strong peak. We actually, despite all the challenges have more stock in the business now than we did this time last year. So that's a testament to all the hard work of the team. All of that being said, I think this is an excellent year to buy big and buy early for Christmas presents. And you will have noticed the discounts that we've made available to this esteemed audience. You have this amazing field of amazing technology in front of you and some capable and committed colleagues who would like nothing better than to help you sort out all your festive issues present wise right now. So may I encourage you to get stuck in on that note many thanks for your time this morning, really much appreciated. We've enjoyed it. We hope you've got something out of it. Have a great day. Bye-bye