J Sainsbury plc

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Q1 Trading Statement 2022 - 2023 Analyst Q&A Call
5 July 2022 - 9:15 am

Presentation

Operator

Hello, and welcome to Sainsbury's Q1 Trading Statement 2022 to '23 analyst Q&A Call.

On the call this morning is Simon Roberts, Chief Executive Officer, and Kevin O'Byrne, Chief Financial Officer. I will now hand you over to CEO, Simon Roberts, for the presentation.

Simon Roberts
Chief Executive Officer

Well, thank you. Good morning, everyone, and thank you for joining Kevin and I this morning to talk about our Quarter One Trading Statement, covering the 16 weeks to 25 June.

I'm going to give you a brief summary of our performance first, with a few slides, and then of course, we'll be happy to take all your questions.

Clearly the environment out there is tough. Tough for customers, tough for suppliers and as a result, we are taking necessary, but tough decisions on costs, on prices and clearly, on our priorities too.

The key point to make here is that we are very focused on delivering against our strategy for the long term, and on further building momentum in each of these areas which are critical for this year ahead.

And nearly two years into our plan now, we believe we are well placed to navigate this environment, given the progress we're making.

So looking first at our numbers, well, I'm pleased with the performance we've delivered, but importantly also, how we've delivered that performance through the first quarter of the year. We're trading in line with expectations, and there is no change to the outlook we set back in April.

It's important to remember that the first five weeks of our trading period was against a lockdown last year. Year-on-year Grocery sales declined, but as you can see, we were significantly ahead of pre-pandemic levels.

Through the first part of the quarter last year, the closure of non-essential retail particularly impacted Argos, Sainsbury's General Merchandise (GM) and Clothing year-on-year numbers.

So, to unpack what this means a little, Argos sales were down 19% in first five weeks, but down 7% for the remainder of the quarter once we had passed the lockdown anniversary.

As expected, we are seeing customers spending less across some categories, but we've also seen encouraging GM market share performance in that context, with market share gains through the quarter in a number of categories.

Fuel sales were 27% higher through the quarter than pre-pandemic levels.

Turning to the next slide. We show you the same volume market share metrics each time we report, and we were only slightly behind the market on a year-on-year basis against what was a strong outperformance in the same period last year. We're pleased with this, and we're pleased, too, with our continued progress in putting Food First.

Customers are recognising our improved value, and they're choosing us for the big occasions like the Jubilee. We also performed well through the key events in the quarter, Easter, May Bank Holiday, Mother's Day and Father's Day, and as you can see here, importantly, we're holding on to the market share gains that we have made versus the pre-pandemic levels.

On this slide, we've given some further context at to what's going on across the grocery business in each of our channels. As you can see, supermarket basket sizes have settled at a higher level than the pre-pandemic. And you can also see supermarket transactions have continued to recover, as some customers switch out of online and return to our stores. Online sales are still broadly, though, double pre-pandemic levels.

This normalisation of customer behaviour is also driving continued recovery of our convenience sales, as you can see, on the right-hand chart.

Now, we are seeing some signs of customers changing behaviour in response to the cost of living crisis, but it is also hard to untangle these effects from the COVID normalisation we're also seeing. We're seeing some switching into Economy Own Label, but Premium is remaining resilient and Taste the Difference is performing strongly.

Clearly in General Merchandise, demand is challenged and will continue to be, especially across big ticket items. We have factored this into our forecasts.

As we said, we would focus on our value and competitiveness at the centre of the plate - that's the absolute core of our strategy. And we have further invested in this with Aldi Price Match, and we're now matching Aldi on the 20 highest volume lines, which customers buy most often.

So, we're taking a step back at what's happening here; I think we are well placed to respond to changes we're seeing in customer behaviour. Most importantly, we're listening closer than ever to our customers, so that we can be agile, and adapt faster in our response, and in our forward planning.

As you know, we set course 18 months ago to be much more competitive. This is working for us and clearly more important now than ever.

We also have a customer base that expects great value for money, but also one that is prepared to trade up into Premium. And we have a breadth of assortment and brands across our offer, together with a service proposition, that are differentiated and our customers continue to value.

Now, on this next slide, you'll be familiar with these two important charts. We're continuing to inflate below the market by 1% to 2% overall, and particularly as you can see here on the items that customers buy most often.

We are seeing more spend from secondary customers - those who are shopping round more - and continuing to see growth from these customers.

Being more competitive is the driver of our improved performance. Our value index to Aldi has improved over 350 basis points year-on-year.

And the three core value programmes of Sainsbury's Quality, Aldi Price Match, our Price Lock and Investing at Centre of the Plate is absolutely core to our value strategy.

These three platforms are underpinned by Nectar Prices, which is personalised value for customers, and that's really working for us.

Also in the quarter, we moved the number of digital Nectar users to 9.6 million, and so gaining further momentum there, too.

Now, moving on to this next slide, we've also seen customers choosing Sainsbury's for the key events during the quarter, and this is really reflecting the work we've been doing, both on improving innovation and quality.

Through the Jubilee, we outperformed the market by nearly 2%.

Strong Taste the Difference performance came through, as customers really bought into our Premium ranges, and we were 12% up on Taste the Difference through the Jubilee.

Innovation is an absolute key of our focus, and we'll launch around 350 new Taste the Difference products this year.

We also saw biggest ever beers, wines and spirits sales outside of Christmas and Easter through the Jubilee.

We have more than 200 new Summer Edition products launched for this year. We've gone big on barbeque with our biggest ever range, so we're well set for the summer, and hopefully, some warm and hot weather coming soon.

Now, I said earlier that we are seeing customers spending more cautiously on general merchandise and clothing, as we expected. But we are pleased that we are taking our fair share of the spend that is out there, and gaining share in some key categories, like consumer electronics, technology, household and gardening.

This chart shows the difference in the year-on-year growth initially against the period of lockdown closure last year, in the first five weeks, and then as we annualised that in the second 11 weeks of the quarter.

We continue to be cautious on customer spending, but also confident that there will be some offset to this, both on the top line, where customers are seeing better availability, and on the cost base, where the Argos transformation programme continues at pace, and we're on plan in delivering the expected benefits.

We guided at year end to expect high single-digit volume declines at Argos, and we're still comfortable with that guidance.

And of course, it's still relatively early in the year, given the weighting of GM sales to the second half.

Now, on this final slide, I just want to come back to the key priorities we set out now nearly two years ago. This is our plan. We're delivering against the five key priorities, and they're more important now than ever in the current environment, with a real focus on putting Food First, our Brands that Deliver, and Save to Invest.

We're maintaining a really sharp focus on innovation, on service, and above all else, on value, and we're very focused on strong execution and continuing to be agile, as we move at pace.

We're delivering supporting this with a very focused programme of delivering structural cost savings, as we've talked with you about before. We believe this puts us in a strong relative position to our competitors, to navigate in this environment.

So, to conclude before questions, quarter 1 sales have been in line, we are on track to deliver the guidance set out in April, and we've been pleased with our market share performance.

Of course, it's not easy out there, and we still have a lot to deliver this year, but we are well placed and as a team we are very focused on delivering our plan.

I just want to thank my colleagues and all of our suppliers for all of their hard work in the quarter, and everything that they're continuing to do to support our business and to do the best job we can for our customers.

Thank you for listening. I'm now going to hand back to our moderator, and we'll open up the call for your questions. Thank you.

Question and Answer Session

Operator

Thank you. We will now take questions from the chosen analysts. If you would like to ask a question, please use the reactions button at the bottom of your screen and use the raise hand function. When asking a question, please turn your camera on, and unmute yourself.

Our first question comes from Andrew Gwynn, BNP Paribas.

Simon Roberts

Good morning, Andrew.

Kevin O'Byrne

Morning, Andrew.

Andrew Gwynn, BNP Paribas Exane

Hi there. Good morning. How are we doing? Hopefully you can see me, emerging from the darkness, by the look of it.

Simon Roberts

You're a little bit dark there, Andrew, but we can just about see you.

Andrew Gwynn, BNP Paribas

The first question for you, Kevin - yes, I think I'm coming through now. Here we go. First question for you, Kevin. Obviously, an announcement that you intend to retire - thankfully with us for a few months yet, but just wondering if you can put some context around that. It's obviously a very difficult year but maybe just overlay your thoughts?

Second question, you mentioned the trading around, but also, actually the uplift in the spend with secondary shoppers. So, is Sainsbury's a net benefactor from the shopping around?

Thank you very much.

Kevin O'Byrne

Thank you, Andrew. Yes, I'll take the first one. Yes, it was always going to be a hard decision when to decide to retire, and it's been a real privilege working for Sainsbury's and having this role. But when the time comes, you know, I will be 58, I'll have done not far off 30 years of these types of jobs. Six years at Sainsbury's and had the pleasure of three years since Simon was announced as CEO and working together. So, it's the right time, personally, for a change.

The big news, and I'm really delighted, is that we've made an internal appointment, with Bláthnaid Bergin taking on the role. Bláthnaid is just a very strong contributor to the business right now and will be an excellent CFO.

By the way, Andrew, if you need any advice on pronouncing Bláthnaid's name, I'm available for one-to-one coaching.

Andrew Gwynn, BNP Paribas

Thank you very much, yes, I did ask James earlier. On the trading around, sorry, Simon.

Simon Roberts

Yes, just to emphasise the point, great to be able to appoint an internal successor. Kevin and I have got plenty to do, haven't we, Kevin, over the next nine months, in the balance of this year.

So, just coming to your second question, I think, just in the pack, hopefully, we've given you some colour, in terms of your question on secondary customers.

I think, look, going back to the core of our strategy, we've said that we would be really focused on winning back secondary customers into Sainsbury's. That's where Investing at the Centre of the Plate particularly was really key.

Looking on slide 7 in the pack, hopefully, you can see, as we continue to inflate behind the market and even more so on those products that customers buy more often, so too, we're seeing the results of bringing more secondary customers back into our brand. Particularly compared to our other large superstore competitors.

So, it's a continuation of what we've talked with you about before, but I think as the focus on value picks up, we're seeing the benefit of this coming through even more clearly. And that's one of the reasons why we've further improved the price match, to focus now on the 20 highest volume lines that customers buy most often.

Andrew Gwynn, BNP Paribas

Okay, very clear as always, thank you very much.

Simon Roberts

Thanks, Andrew.

Kevin O'Byrne

Thanks, Andrew.

Operator

Our next question comes from Xavier Le Mene, from Bank of America.

Simon Roberts

Good morning, Xavier.

Xavier Le Mene, Bank of America

Good morning. Hopefully you can hear me. Two questions, if I may? The first one, can you potentially give us a bit of colour about the Jubilee and what was the impact of the Jubilee on your Food sales? And can you also potentially comment on what was the exit rate for food, groceries, at the close, the end of the quarter, to provide that for the end, the first five weeks versus the last 11 weeks? But can we get a bit of colour too, for food?

The second question, actually is about the higher penetration you're mentioning about value lines. Can you tell us where it is coming from? Is it consumers trading from branded goods to value lines? OR, from Sainsbury's products to value line? Just to get a sense of what could potentially be the margin mix impact?

Simon Roberts

Xavier, thank you. Why don't I pick up your opening questions on Jubilee and the momentum in the Food business, and maybe I'll hand to Kevin, in terms of some of the mix effects we're seeing?

First point, just to come back to the Jubilee. We really set ourselves up to make sure we could do a great job for customers. Sainsbury's, over a long period of time, has been strong at key events. I would say we really pushed ourselves in terms of our activation, to see what we could do, and it really worked. So, as you've heard me say, we beat the market substantially that week, and it made around 0.5% difference in the quarter, in terms of overall impact of Jubilee. I think redelivering for customer on quality, on innovation, on trade up, and making sure that we really were the go-to destination.

Honestly, we also learn a lot from that, as we look ahead, over the balance of the year, at what we think we can do better, as we look at the events to come.

So, pleased with the performance. We learned a lot, and we really went to market with a very coordinated plan and activation, to make sure that we really delivered for customers.

In terms of more broadly, in the Food business against our strategy, two key points I would put out. First on value, to your question, we are seeing the benefit of the Sainsbury's Quality, Aldi Price Match programme and Price Lock, because it is really asserting our commitment to maintain and hold the strength of our relative value position.

We're inflating behind the market 1% to 2%. You've seen where the market's inflating. Kantar last week talked around 7%. We're 1% to 2% behind that.

Then, clearly, customers are also making choices about what they're buying into, and you can see, in our pack, where we've just tried to give you some sense on the Price Match, in categories like Meat, Fish and Poultry, and Dairy, and also in Produce, that we're seeing higher participation of the Economy Own Label, as we put more of those products into the offer.

So, both delivering for customers, but also creating the volume in that Meat, Fish and Poultry aisle, and then Produce, which is winning those secondary customers, and they're shopping then across the rest of the store with us.

So, a continuation of what we said we would do, and as the focus on value for money becomes even stronger, exactly as we guided to, we're executing against that plan.

Kevin, is there anything on mix you want to add?

Kevin O'Byrne

Xavier, I'd just draw your attention to slide 6 in the pack, where you can see the change in mix there, where we've got Aldi Price Match offered to customers. The category that's got the highest penetration is Produce, almost 16%, but you can see a big move on Meat, Fish, Poultry, where it's gone from just under 8% to almost 13%.

If you were to walk a store this morning with us, you'd see that. It's very evident in the aisles. It's very clearly communicated. I think we've improved our communication of it as well, in store. So, strong offers there.

A point from an economics of the business, that's worth remembering as well, is although we're seeing much higher penetrations there, and we're supporting customers at a tough time, the mix in our business, it's still a lower percent of our mix than you might find in other businesses' shop. It obviously helps the economics in the business.

But from a customer point of view, if you look at the inflation that Kantar talk about in the market, of 7% - let's call it like-for-like inflation – ours is lower, for the reasons Simon has talked about, and then, actually from a customer point of view, in the basket, it's lower still, because people are shopping the value that we're offering, and able to dial some of that out of their basket.

Xavier Le Mene, Bank of America

Okay, thank you.

Simon Roberts

Thank you, Xavier.

Operator

Our next question comes from Victoria Petrova, of Credit Suisse.

Simon Roberts

Hello, Victoria. Good morning.

Victoria Petrova, Credit Suisse

Thank you very much for taking my questions. Good morning. Good morning, thank you very much. Congratulations on strong results.

Some of my questions were answered, but it is basically one question around margins. You are keeping your guidance, despite the fact that you're very satisfied with the first quarter. Obviously, the comps probably would be easier for you on what you need to deliver in the remaining nine months of the financial year. How do you look at it?

Have I understood you correctly that your shelf inflation is 1% to 2% and your cost inflation is below 7% - let's say, 5%, broadly? Is this the way to look at it?

And has this relative outperformance on the revenue side translated into underlying profit before tax or are there some things we should just keep in mind up until the end of the year, given that there might be challenges which are yet to come, maybe another round of price increases by your suppliers, or anything else we should just watch? Could you please help us with that? Thank you.

Simon Roberts

Kevin, do you want to talk about the outlook and then I'll build on it.

Kevin O'Byrne

Yes, Victoria, coming onto the guidance range, we're not changing the guidance range. It's as we've said before. It's hard to be precise at this stage or more precise at this stage, so we're still within that range because there's a lot of moving parts, and clearly, the second half is very important for the Food business and for General Merchandise.

So, as we've said before, continue to expect Food volumes down a bit with some offset by inflation, expect high single-digit volume declines in General Merchandise, and of course, all to play for in General Merchandise in the second half and since the outlook and the guidance remains the same.

Simon Roberts

Look, nothing much to add other than to say, look, I think that we're learning a lot as we go, Victoria, as well, about clearly where the challenges are but also where the opportunities are too and that one of the things I think that's critical as we head into this year is all of the learning about agility and pace through the pandemic is going to be just as critical as we look out over the next nine to 12 months.

So, as you've seen in the first quarter, we're staying very close to customers and we're adapting and adjusting our plan based on what we're learning. Everything we've taken for this period we're using to think about the Summer and the Autumn and Peak and making sure we're really well set, given the conditions around us.

Victoria Petrova, Credit Suisse

Thank you very much. Any comments on the price versus cost increases?

Simon Roberts

I think maybe just to reiterate key points. You've seen Kantar report around 7% inflation in the market. We said at our prelims in April and we're consistent with this again now that we're inflating at the overall level 1% to 2% behind that. Clearly, in products that for example are in our Price Match, we're inflating even less so there. On the other side of things, we're working very hard with our suppliers.

The commercial teams, Rhian and Paula and all their team are working really hard on making sure that we're mitigating the flow of cost price impacts. Of course, the issues around commodities continue, exacerbated by the Ukraine situation, labour costs, fuel, fertiliser – we're all well aware of those impacts. But I think we, over a considerable period of time now, have been really focused with suppliers on (1) creating volume and (2) making sure that we're getting the most competitive terms in terms of what we're buying and we continue with that work.

Our job is to pass on the best value we can to customers and make sure clearly we protect our shareholders too, and that's exactly what we're doing. We're spending a lot of time in the supply base, really progressing those conversations, and it's all about deep, trusted relationships, robust conversations, and finding the opportunities in the challenges.

Victoria Petrova, Credit Suisse

Thank you very much.

Simon Roberts

Thank you, Victoria.

Kevin O'Byrne

Thank you, Victoria.

Operator

Our next question comes from Andrew Porteous, HSBC.

Simon Roberts

Hello, Andrew, good morning.

Kevin O'Byrne

Morning, Andrew.

Andrew Porteous, HSBC

Morning, team, how are you doing? A couple from me. I guess one of the main features of the market at the moment, certainly from a Big 4 perspective, has been Tesco's consistent outperformance for a period. What do you think it is that's enabling them to win share, even as we lap that lockdown comparative, and is there anything in your plans that might narrow that gap? I know you're doing better than some of the others, but just with respect to Tesco in particular.

Then a second question really around Argos. How are we thinking about inventories and gross margins there? Are we starting to see more markdown come into the mix there?

Simon Roberts

Andrew, thank you. Let me take your first question and then maybe Kevin will talk about Argos.

Look, I think in terms of our plan we laid out in November 2020, you heard us be really clear on Food First and you saw our level of outperformance during the first year of our plan. So, I think we are pleased with how we performed last year and we're pleased with how we performed as we've lapped that period of strong performance, particularly given, as I say, how far ahead we were in the first half last year.

So, as we look ahead, we're entering into a period of time where some of the supply chain and availability challenges were pretty prominent this time last year. We had CO2, we had issues with meat availability and labour in the meat industry, we had obviously the impacts of the staycation. All of those things played through during July, August, and September as we look out and so we're setting ourselves up to make sure we can continue the strong volume share performance that we are now really working on building.

That's how we see the performance and clearly, as we put Food First and get value right and improve innovation, we've more reasons to feel confident we can sustain that progress. On Argos, Kevin?

Kevin O'Byrne

Yes, Andrew, on Argos. As you recall, there was four key things we wanted to do with Argos: take cost out, closing stores, and removing rent and rates, margin discipline was an important one which we're touching on and then there was availability, and then there is improving the offer. On margin discipline, we stay focused on that. It's about profit, not sales for sales sake and we'll continue to do that against the current backdrop.

As far as stock is concerned, we're pleased that we've got better supply now. As you recall, we've had some supply challenges through the pandemic and I think also our financial strength means that suppliers are very comfortable trading with us, which is helpful.

Simon Roberts

Thank you, Andrew.

Andrew Porteous, HSBC

Thanks a lot, that's super helpful. Just on the Argos point, do you think more broadly in the UK non-food industry there's the same sort of inventory issues that we're seeing in the US, or do you just think that's not been the same sort of issue in the UK?

Kevin O'Byrne

I don't think we can comment on everyone else's – we're very comfortable with our inventory position.

Simon Roberts

Again, look, I think the only other point for our business, Andrew, is that as we referred with you before, the pandemic was a period of really significant learning in terms of how we manage both margin cost reduction and inventory levels. Everything that we learnt through that period the team are continuing to use, so clearly, we're focused now on Q3, levels of stock we want to buy for that period and making sure that we're really agile and well planned in how we do that. So, a lot of muscle memory being built that we'll be deploying over the next 12 months.

Thank you.

Kevin O'Byrne

Thanks, Andrew.

Operator

Our next question comes from Sreedhar Mahamkali, UBS.

Simon Roberts

Hello, Sreedhar.

Kevin O'Byrne

Morning, Sreedhar.

Sreedhar Mahamkali, UBS

Good morning, guys. Thanks for taking my question. A couple of them. Firstly, can I just follow up on the secondary customers, please, helpful data on slide 7 there. Can you talk a little bit about the drivers and how important is Sainsbury's Quality, Aldi Prices here? Also, bigger picture, how has the proportion of shopping with Sainsbury's has changed over the past year or 18 months? That would be helpful.

Secondly, inflation. We talked about Food and Grocery. Can you give us a sense of where inflation is running at across GM and/or in Argos? Thank you.

Simon Roberts

Thanks, Sreedhar. Why don't I take your questions on secondary customers and then maybe Kevin will talk about what we're seeing in terms of inflation levels in GM?

Look, I'm going to go back as a reference point to November 2020. You'll remember when we laid out our Food First strategy that we were really clear, having analysed and listened to thousands / millions of customers, that we had to really work on the secondary customer base that were choosing to go elsewhere for some of the items at the centre of the plate, and then were coming back to us to top up.

Really, what we've been doing over the last close on two years now is focusing on Meat, Fish and Poultry and Produce and Dairy, winning the heart of the basket, winning the centre of the plate. As we've done that, we've seen more secondary customers come back to us, so it's really a continuation of what we laid out back in November 2020.

I think what's changing is as customers are more and more focused on value, they are looking at every penny on the shelf in terms of where we are compared to others, particularly on those products that they buy most often.

It's one of the reasons why we don't run multibuys, why we don't do three for twos and extended promotions, because what customers are interested in, especially now when they're managing every penny and pound in the spend, is what the shelf edge price is on four pack of chicken breast portions, strawberries, milk, potatoes, the products that we all buy week-in, week-out.

So, that's what the secondary customer focus is all about, and as you've drawn attention to the slide and the chart, what you can see is how we're growing with those secondary customers compared to our direct competitors. The reason we're very focused on that is particularly now, where customers are looking at where they can get best value, we want to make sure that we're putting our best foot forward in continuing to give customers confidence that on those products we're exactly the value they would expect.

On Argos, Kevin?

Kevin O'Byrne

Yes, Sreedhar, on General Merchandise, it clearly varies by category because there's a number of business in there, as you're aware. But it's high single-digit inflation we're seeing generally across the mix and that's a combination of the underlying cost of the products coming through but also the freight to get it into the UK. We're starting to see freight rates soften as we look out but clearly, the products that are in the country right now we've had high freight rates.

But we're seeing a rational market, we're seeing the market passing on those costs through pricing, which is what we would have expected.

Simon Roberts

Thank you, Sreedhar.

Kevin O'Byrne

Thanks, Sreedhar.

Operator

Our next question comes from Rob Joyce, Goldman Sachs.

Simon Roberts

Hello, Rob, good morning.

Kevin O'Byrne

Morning, Rob.

Rob Joyce, Goldman Sachs

Good morning. Thanks very much for taking the questions. I might actually try and sneak three in.

So, first one on inflation. I think your own chart there definitely shows quite a pickup in inflation in June. Our own data suggests the market's tracking now at double-digit levels. I guess could you confirm that the exit rate inflation is maybe tracking around those levels in the market data you track and has those consumer behaviour changes – have they started to accelerate towards the end of the quarter or are they pretty consistent across the quarter?

Second one tied to this is just on the Argos credit book. Can you just give us an update on how the bad debt profile in that book is evolving and anything else you'd highlight in the book's performance?

Thirdly, just because I think people are spending quite a lot on holidays at the moment - from your own data, can you give us an idea as to how much your Travel Money business is tracking versus, say, pre-pandemic levels? I think that might be interesting. Thank you very much.

Simon Roberts

Rob, thank you. Look, why don't I take one and maybe three and Kevin maybe will take the credit book question.

So, at the risk of repeating myself, Rob, I think in terms what we're seeing on inflation – undoubtedly, as you've described, the situation has developed through the quarter and so customers having a propensity to shop more into the Economy Own Brand product base, we've seen that accelerate, as I said in the presentation.

We've also seen customers trading up, particularly on the key events, and that's why Taste the Difference plays a key role. I think just to reiterate the point that whilst in terms of the market reads we've broadly subscribed to the Kantar numbers last week of market inflation, we're 1% to 2% behind that and as I say, depending on how customers shop the basket, if we were to go through a store today and buy only products in the Price Match, then clearly, there's a further level of saving and therefore less inflation in the mix.

So, I think the key trends we're seeing is customers are buying more into that Economy Own Label. We think the Price Match is really well set to prepare for that and as we look ahead, I think what you can see us doing is continuing to adjust our price programs to make sure we're really well set to what customers expect, and also continue to accentuate the breadth and assortment of the Sainsbury's offer.

In terms of what we're seeing on prices going up, clearly there are some categories where there are more pressures. You'll be well aware of fuel, fertiliser, labour, some of the commodity issues that are out there, but what we're trying to do is position ourselves to be the most competitive on the products customers buy most often, and that's broadly playing through into how customers are buying into those product ranges.

The other question you asked before I hand to Kevin – we've had a strong run on Travel Money, not surprisingly. Interestingly, from our credit card we can clearly see that customer behaviours in terms of flights, eating out, travel is at an elevated level. No surprise there. We are planning and thinking about at what point Out Of Home food consumption will move back to more in home and how we make sure in the Food business we're ready for that, but strong performance in Travel Money to start the year. Kevin.

Kevin O'Byrne

Okay, just on the Argos credit book, no change to date but it is something we're watching carefully, which won't surprise you. We would expect some weakness as we go through the year. But the key thing when we look back historically, a key factor in the strength of the Argos credit book relates to the employment market. In a full employment market that we're seeing at the moment, then we're less concerned but obviously something we're keeping an eye on.

Rob Joyce, Goldman Sachs

Maybe you don't have the stats, but just on 2019 - I get the feeling that people are spending even more than they were in 2019 on travel and restaurants and stuff. I don't know if you can pull that out of your data.

Simon Roberts

That's the trend we're seeing and I think as you point to, certainly on travel and eating out, the trends, we're not seeing any slowdown in that at the moment. So we'll keep you updated as that picture changes, but at the moment continued elevated levels against '19/'20.

Rob Joyce, Goldman Sachs

Thank you very much

Simon Roberts

Thanks Rob

Kevin O'Byrne

Thanks Rob

Operator

Our next question comes from Will Woods, Bernstein

Simon Roberts

Hello Will

Kevin O'Byrne

Morning Will

William Woods, Bernstein

Hi there - Morning, thanks for taking questions, just a couple. So on the pricing chart that you shared it looks like the gap between you and the total market has narrowed over May and June. Do you think that's driven by greater pressure from peers bringing down inflation, holding it back? Or do you think you've just accelerated some of the inflation passthrough?

And then secondly, just a bit of a technical one. On Argos you mentioned furniture, home and technology suffering a little bit. Roughly what percentage of sales do they make up within Argos today? Thanks.

Simon Roberts

Thanks Will, I think on the first question, just to absolutely try to be as clear as we can on this, we continue - there's clearly a significant inflation coming through in the market. We're inflating behind others and we have consistently put prices up behind others. But clearly, as you'd expect, also we want to make sure we manage our choices about value investment and margin to make sure that we're handling that appropriately and that's what's happening through this period effectively. So as the intensity has picked up, so we pass through more prices where the market has moved.

In terms of our relativity to others, I think there's an important dimension to this which as I said earlier is linked to the proportion of promotions that different retailers have in their mix. We have a very low promotional mix within our offer compared to a number of our direct competitors and that directly has a bearing, clearly, on the impact of those promotions in terms of what it means on inflation, if customers were to buy into all those promotions. Our own view is that when customers are really watching their budgets and their spend carefully, we're not seeing their propensity to want to buy into three for twos and multibuys. They're buying what they need now and hence the reason why our real focus on shelf edge pricing is working for us and we think really important. So I hope that answers your question on inflation. Kevin.

Kevin O'Byrne

Just on the furniture, it's just over 20%, Will.

William Woods, Bernstein

Got you, perfect, thank you.

Simon Roberts

Thank you Will

Operator

A reminder – if you would like to ask a question, please use the reactions button at the bottom of your screen and I will ask you up to ask your question.

Our next question comes from Nick Coulter, Citi

Simon Roberts

Good Morning Nick

Nick Coulter, Citi

Hi, good morning, three quick ones if I may please. Firstly, to follow up on, I think, Andrew's question on Argos. I know you said you're happy with your inventory, but to what extent are you pre-ordering or pre-shipping General Merchandise inventory, or has that completely normalised?

And then a follow-up to that, how are you thinking about adapting your offer at Argos into the Peak as the consumer weakens?

Simon Roberts

Nick, thank you, I can hear a fire alarm going off there. Okay, so just to try to - I think you said three questions, I got two there. So the situation on stock on GM, adapting the offer as we head into Peak. Was there a third question that you wanted to ask?

Nick Coulter, Citi

There was but we're having a bit of a fire alarm test here, so why don't you answer the first two and I'll ask that one after, if that's okay.

Simon Roberts

Okay, let me do that. As I've begun to describe, the team are all over planning the Peak period. I think for all the obvious reasons we are being very thoughtful about the stock commitments we're buying to. But also we see a number of opportunities in this market as well. Argos has a really strong reputation with customers of good value for money. Clearly our digital reach is significant and clearly as we have now over 400 Store in Stores inside Sainsbury's Supermarkets, over 1000 collection points, there's a number of elements that the Argos customer proposition that we think will be really important through that period of time.

So we are planning and preparing for Peak in that context. Availability is a key focus of what we're working on, you can see in our pack how availability has improved over the last nine months. And of course, it's a careful balance between optimising availability in the products people want to buy and making sure that we are robust and disciplined in our stock commitments. I think in this period of time we'll continue to do exactly what we've been doing.

And then on the offer, I think we started on Argos in November 2020 and said we needed to face into the operating model and operating costs of the business. We are coming up to two years on that progress. As you've seen, we've accelerated substantially the Store in Stores and the rollout of the Local Fulfilment Centres. We expect that to continue to drive both availability and the continued reduction in operating costs. We're also making a number of efficiencies in our logistics operations as well.

And so the cost base transformation was our first key priority. We're clearly also looking at the proposition, looking at our value, looking at our assortment, looking at our availability and Paula and the team are very focused on that and we've got a number of key plans that we're now working on.

Brands that deliver is a key focus of our strategy and the combination of cost takeout, margin discipline and improving the offer, all three of those we're moving forward with.

Nick Coulter, Citi

Is it fair to say you're expecting high single digit down volumes, but then you've got high single digit inflation coming through, that your inventory will be broadly flat in terms of monetary terms heading into Peak from a GM perspective? Is that a sensible assumption to make, that you've brought your inventory down for the lower volumes, but clearly on a monetary basis it'll be back up?

Simon Roberts

I think there's a couple of things we shouldn't miss in the history. Clearly we were under-optimised on availability into last Christmas. There were a number of categories where we would have preferred to have had more stock in the system than we were able to get, due to the global situation. So we're planning for both the impact of the demand down this year, versus the availability shortfalls last year.

And also we're working closely with suppliers to make sure that we get more than our fair share of products, where we think we've got a real opportunity to convert with customers. So it's not as straightforward as to compare the two years, year-on-year for that reason. But I guess the key point I would come back to is we see opportunities in this market to make sure we deliver for customers, we're equally being robust on where we're investing in stock and where we're not.

Nick Coulter, Citi

Great, okay, thanks very much. One last one, if I may, just on inflation. As we stand here today, where do you expect greater inflation to peak and when? That's very much obviously on a best guess today basis.

Simon Roberts

Nick, you wouldn't, I don't think, expect me to be able to name a number. It's an uncertain situation. Clearly the pressures are still in the system and you can see, as I can, the continued pressures on some of the inputs still coming through.

I would say that we're very close to this with our suppliers, as you'd imagine. Day in day out, week in week out, we're constantly talking with our key suppliers, which gives us a good line of sight to where the inflation tracks are going.

Some of the availability issues we've seen are starting to recover, particularly on some of the Ukraine-based issues.

I think what I would say on this is we're all over making sure we mitigate the impact, all over making sure we manage the mix impact, such that we can deliver good value for customers but also make sure we deliver for our shareholders too. And so ,as we look out for that, we can navigate those choices carefully, as we've been doing.

Nick Coulter, Citi

So your sense is that still it rises from here, there's no kind of plateau or…

Simon Roberts

I think there's still pressure in the system, but as you look further out, look, I think it's hard to call what's going to happen further into the Autumn. There's still more to come, but I think we've got good line of sight of what we can see with our suppliers and we continue to use that to inform the balance of what we're investing in price and as I say, how we manage the impacts of this. And what we've done so far, I think, demonstrates the rigour with which we're doing that.

Nick Coulter, Citi

Super, thank you.

Simon Roberts

Thank you, Nick. I hope everything's okay there now on the fire alarm front, thank you.

Operator

That was our final question. I will now hand back to Simon Roberts for closing remarks, thank you.

Simon Roberts

Thanks everyone for joining us this morning. We really appreciate your time and I hope we've been able to give you some good colour on our performance. Clearly we will focus now, as we head into the second quarter. Thank you for your time and look forward to catching up again soon, thank you.

End