

## **FROM VALUE-FOR-MONEY TO VALUES-FOR MONEY**

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Good morning. Can I just start on a personal note before we actually get into the presentation. And that is, the problem I've got with food labelling. Quite a hot issue with various retailers taking different views. We've got traffic lights, we've got the wheel of health and we've got GDA labelling and the big problem I have, and I haven't seen much about this but I think in common with some of the male members of this audience, I am partially red/green colour blind. Now think about it, wheel of health, if you shop in Sainsbury's particularly, I'm just going to get fat! [Laughter] At the moment I have a body mass index of 24.1 so I'll guard that most jealously. In your conference packs you have a piece of paper which enables you to ask for conference papers and so on, I'm not sure how they will do that, if they will send it out as black and white print or on a CD or what or email? Does anybody know how it is going to happen? If you have an issue my email address will occur at the end of this presentation in about 300 slides time and you'll be able to send me an email and I'll send you back a reply.

A lot of my presentation isn't about bread actually, it's about the environment – the company I work for TNS has a division called TNS WorldPanel and in the UK we have a panel of 25,000 homes and they have electronic equipment, rather like a personal digital assistant with a laser scanner at the end and they read the bar codes of their shopping when they come home, not in the store and we have equipment that makes about 15,000 phone calls a night and collects that data so on a very continuous basis we have a very accurate picture of shopping and consumption behaviour in this country and that's what my presentation is based on. I will be talking about bread but it will be some time before I get round to it.

Opening shot there, that is the People for the Ethical Treatment of Animals and that is what will happen to you if you mistreat bread so be careful. That's the alternative title to the presentation, I want to do right by the world and feel good about it, because I'm talking to a degree on what touches on corporate responsibility but the changing consumer attitude to food and people's place in the food chain. Really what I wanted to start off with is, are consumers willing to pay extra? That is always a popular topic with manufacturers who like to hear about that sort of thing but it is a very interesting thing because if you are beamed down from Mars and look at the grocery environment in this country, for a certain amount of time – if you looked at certain style of advertising – you would say it was all about price, we are all trying to buy the cheapest possible, everybody is talking about how cheap they are with reduced prices and so on but in fact, when you really look closely at individual markets you will find there is quite a paradox because in many cases we are not buying on price, we are in fact doing the opposite so that is my first section.

The first thing is a couple of charts here. They are actually government data so they must be right. What that one tells me is that we are roughly two and a half times more wealthy than we were in 1970, that's in real disposable income once taxation and so on is taken out of the equation. Incidentally, if ever you want to get these statistics there is the ONS website which is about as user friendly as a cornered rat. It is the most devastatingly complicated website I have ever used but if you can delve there on a rainy afternoon you will find little nuggets like that and this is a good one, so two and a half times as wealthy as we were in 1970. And yet, isn't it strange that the whole thrust of the food industry has been over that time to reduce its importance to the household budget, because this has happened. In 1963 food and drink was about 24% of the household budget. It is now about 8%. I don't know how old some of you are in the audience but for myself, if I go back to my parents time, there was a time when feeding the family was quite an issue, you would compare pennies, my mother would shop around different shops and it was quite apparent that feeding the family was quite a substantial chunk of the budget but now we are spending on holidays, electronics, better clothing and so on, all the other demands on our money and for most people in the audience you will go and do your shopping and that's it. You'll pay, go, you won't check the addition or look at the pennies. The combination of these two charts – this one and this one - is a very rich cocktail for people with the right proposition put in front of them to lift their eyes up from the cheapest and actually buy on another agenda so let's start looking at this. We've got this evolution of lifestyle and health and the original sort of thing was the idea of we'll control what we eat, we'll have low sugar, low fat ideas, we'll think about outer health and cut down on things, a slightly negative approach to things. Then there is a little bit more about the internalisation, we are thinking about feeling better and perhaps controlled fat rather than low fat alternatives, thinking about a holistic approach to health so there is actually an evolution of our attitude but what we are now seeing is actually rather than thinking about ourselves we are more externally directed and we're thinking about our place perhaps in the food chain and living better, being more responsible and even outside food we have got a lot about global warming and our place on the planet. There are a lot of moves about organic fair trade, the environment, I don't need to spell it out, you just need to look around and see it in the press and in advertising and so on. So this is the big sort of evolution, at the same time as we have more disposable income and that's really where the title of my talk came from and I won't claim it's mine, I'll be quite honest, it came from Professor Tim Lang of City University. We have seen a shift away from value for money to what we call values for money, so really that is sort of subtext I'm working to here. Price isn't everything.

Tomatoes, what's more basic than a tomato? I can certainly remember back in my youth when you could taste tomatoes, then they went through a period of becoming pink crunchy water bombs and now we are actually seeing this, big secret - tomatoes are seasonal. But it is the direction of those sales and particularly and I am going to use this chart style quite a few times in this

presentation, the bar is the sector share so vine tomatoes now account for nearly 33% of the tomato market and the line with the numbers against it is the price treatment so basically what I have got there is a sector which is growing and the data is pretty well up to date there, March 25<sup>th</sup> this year, the sector is growing yet is selling at 50% more than the average tomato price so anything that is selling at a premium and growing should gain your attention, it certainly gains the attention of the retailers I can tell you. Plum tomatoes, not quite as big but the same issue and nearly twice the average price and we can go beyond that to other sorts of things.

Fresh soup, what's happening there? This was the sales trend for instant soup, the cuppa soup type of thing, powdered soups but this is what's been happening to fresh soup. Why is that interesting? Because fresh soup is now a 20% sector share but per soup dosage it costs two and a half times the market average price, so you get the general impression.

Mineral water, bearing in mind we have a tap. Look at that, look at the sales of that. The only slight glitch was a rotten summer a few years ago. Tropicana, getting a bit detailed here but it's interesting because companies like Pepsi have not exactly seen great growth in fizzy drinks, there is a consumer backlash against fizzy drinks, chips and crisps yet the Pepsico company does have a foot in the other camps with porridge and fruit juice. Here we are with pure fruit juice, it is around a 16% share of the market, the premium has come under a bit of pressure from some of the private labels but it is not far off the market average price for fruit juice.

A few examples, if you look around the supermarket you will see more. The retailers have cottoned on to this factor. At one time private label was very simple, it was what you bought when you couldn't afford a brand, it was almost a bit of a 'well I'd like to buy Heinz but I really only want the private label beans' kind of argument. Now this is the simple thing to do, the cheap end of the market, very easy to do, make sure you have a low cost source of supply, the only commercial danger is that you cannibalise your profitable sales but otherwise quite easy to do. On the bottom right can I draw your attention to this product, 2.1% alcohol by volume, this is the beginnings of Tesco's corporate social responsibility [laughter] because with that product you actually physically drown before you get pissed. [Laughter] This is campaignable. There it is in Thailand, exactly the same thing where incidentally Tesco is also the leading outlet but we can see the sales increasing dramatically. I have got categories containing Tesco Value and this is just in food, we are not even including the household items but there are about 350 different categories. What's a category? Well who cares, it's the trend I'm interested in but what I'm really interested in more is this end of the market, the top four are Tesco's Finest, Sainsbury's Taste the Difference, Morrison's The Best and Asda's Extra Special. Top right there is one of the major competitors to Tropicana in Tesco, and that's what's been happening to Finest. By the way we normally think of a private label, no, this isn't a private label, it's a brand now. It's

supported, a brand is a collection of attributes, real products or an emotional benefit that people will pay a premium for and are loyal to, so that's Finest, that's Sainsbury's Taste the Difference, Sainsbury's Organic. I think there is a trend there don't you? Extra Special and The Best. The only dip there was at the same time that Morrison's was suffering from about five profit warnings so you can understand why their eye came off the ball but now the foot is back on the accelerator and there is a big increase in the presence of this premium private label range in Morrison's. And that's what the sales have been doing, a quite dramatic growth in sales and big peaks at Christmas. It was said I have been with the company for nearly 20 years and when I first joined, the first client I presented to was Stott Paper, they don't exist now, the brand has changed hands but they were talking about Andrex toilet tissue and it was a source of great amusement in the business to discover that sales of Andrew went up at Christmas. I said, is it people gifting it? [Laughter] No, it was people upgrading their toilet experience. But basically what I want to say here is that Christmas is a time when you don't buy cheap, you want the best and here are people actually – the wheel has turned full circle – they are turning to a private label rather than a brand. These products have completely different demographic groupings, top left is the best example, this is social class or in other words income group really, and Tesco Finest share maximises in social class A/B which is senior professional managerial and declines as you go to lower income groups and it is the exact opposite with Tesco Value, similarly on household size, the larger the household the tighter the budget – and this thing works steady as a rock, look at that – the higher sales for Value. So chalk and cheese in the same outlet and we can map these things out on a demographic map like this. So as we go to the right we go up in income group and as you go up the chart you go younger and the point to make there is what a stunning piece of marketing Tesco have managed, any manufacturer in the audience would be delighted to be able to segment a market by price and quality and demand quite as neatly as that. When I look at all these upmarket products, specifically for the top four retailers, they all appear to the bottom right which is also where you will find Marks and Spencer's and Waitrose in particular. That is where the money is, bottom right, higher income groups, older, not older as in pensioners but older once they've kicked the kids out and have more disposable income. It is a real marketing focus for the retail and manufacturing fraternity. Similarly with organic, it's just that it has a younger profile, either because the head of household is buying organic baby food or organic food for the children or it is actually the Blue Peter effect of pester power where kids have heard about food and start pestering parents to buy organic.

Once a year we put a questionnaire past the people on the panel, the 25,000 people and we can cross tab the results against the electronic purchasing. The reason I say that is because these look like statements that come out of a group discussion but the sample size behind this is vast and the numbers are rock solid. The higher the number the stronger the link, in other words people buying Tesco Finest much more than average agree with the statement “I

regard myself as a connoisseur of food and wine". The next one is really annoying, "I find it hard to spend all the money that I earn" but ... [laughter] look at that, "Prepared to pay more for organic, products that make life easier, quality ingredients, regional food producers, local produce, country of origin." You start to get the message coming out – organic, free range, provenance, we're starting to think about the food, not buy the cheapest. Compare that with Tesco Value, bear in mind same brand on it, same outlet. People buying that are working to a strict budget, price is the most important factor when buying a product, always compare prices, visit different shops for the best prices, shop around to take advantage of special offers and my favourite, the one at the bottom, people often smoke in my house. I've no idea who they are, they just arrive! [Laughter] I can summarise it on this matrix which is actually a dramatic piece of marketing, it is very clever. Tesco Finest links very strongly with the statement "I regard myself as a connoisseur of food and wine" and Tesco Value very, very strongly with "Price is the most important factor when buying a product" and in fact it is exactly the same thing for Sainsbury's, the numbers are different but the principle is the same.

Now we start getting into the corporate responsibility and the ethical consumer. Free range – why have I picked that as an example? Well we have different price ranges for eggs. At the bottom we have the prices for non-free range or caged or battery eggs, then the next level up which is considerably more expensive per egg are free range and then at the top much more expensive are organic and then we go to specialist ones such as Omega-3 and so on. That's what's happened to organic, it has grown, run out of steam and is pottering along at 7% of the egg market but look at what's happened to free range – it is comfortably over half of the egg market, about 52% there on the latest numbers, and the reason I am using it as an example is because if you are looking for straws in the wind, this is more than a straw in the wind, the revolution has happened. In other words, this is not niche, this is mainstream, this is by far the biggest part of the egg market. Now I don't know, I may be wrong and someone may criticise me but I don't think you can tell the difference in taste on a blind tasting between a free range egg and an ordinary egg, I know you can when you start getting into organic and how the chickens are fed and so on but free range versus ordinary egg, I don't know if it going to give you any evidence on a taste test but there is a tangible benefit, I want to feel good about my place in the world. People are reassured that they are buying from happy hens and it is not to be taken lightly, it is a real consumer motivation and I think it is actually a real bellwether, this market. And there we are, my performance analysis showing there on the last number on the right that over half the market, and you can see the growth, yet they cost over a third more than the average egg so another example of people not buying on price and not even perhaps buying for a tangible benefit and that's what the demographic looks like. There are three lines for the three years, the lines move up the chart as the sector increases and as you might expect there is a gentle increase in the sector as you go to higher income groups which kind of figures but otherwise those lines are remarkably flat which means that it is a

product that is appealing to everybody. If I look at organic that is more extreme and there you can see in social class A/B the share for organic is something like 12, double the average.

Now it wouldn't be a market research presentation without a truly horrid chart and here it is. The box contains the reference numbers, if you have an electronic copy of this from me later you can relive the high points of this presentation – it says here! [Laughter] Let's get rid of that, what I want to know, we've got free range eggs, the market is up 9.3%, comfortably ahead of inflation and that increase is worth about £23 million, the bars show me that all the consumer measures are positive so we've got 9.3 increase in expenditure, the price has gone up a bit but is not outrageous, 3.5%, but the volume in terms of eggs has gone up 5.6% and why is that? Well the penetration has gone up a little bit but with nearly three quarter of the country, 72% have bought free range eggs in the year, and each of those are buying more, the volume has gone up, there it is and why is that? Not only are people buying more each trip but they are buying them more frequently and the more frequently they are buying more, it is part of their lifestyle. So I know it is a bit of a complex chart but rather than just saying the market is up 9% let's actually look at why because sometimes a market can grow simply because everybody has gone off and done two for the price of one which doesn't make the consumers have any particular warmth to it. But anyway that is mainstream, three quarters of the country buying, that is really important. When we look at free range eggs and do this same sort of statement we are getting everything here. Okay, we are talking free range but the people who are buying free range are also preferring organic food, free range obviously, country of origin, regional food, fair trade products, local produce, environmentally friendly, non genetically modified, locally grown produce. These things are moving as a package to the consumer and the buyers of free range eggs are really expressing that.

Fair trade, perhaps a smaller example, fair trade coffee. I mention this one because it got off to a slightly shaky start, there was a product originally, I think it's still around but might have changed its distribution, called Tradecraft Coffee which you would buy at the church fete and it had the particular consumer benefits of costing more and not tasting as good. It's all right, I can wait. [Laughter] But of course therefore it would have some appeal but only to the die-hard fair trade producers, consumers being fairly logical in that they want things to taste better and in fact Fair Trade nowadays tends to link to knowing where the product has come from, the provenance, we care about its supply therefore that leads to a quality story. There we have fair trade coffee, admittedly more niche but a growing share and at a premium to the market and fairly extreme demographics there but as I say, watch this space because it is a category that Nestle are making various attempts to get into on a more mass market basis.

Once again, fair trade, organic, I'm not going to dwell on this now but you can see all the usual suspects are coming up, even though we are now talking fair trade it is linking to environmentally friendly, organic, free range is on there – it's not free range coffee but we are still getting the link. Now this one, fair trade bananas is perhaps more interesting. There's our growing sector, it is worth 20% of bananas which is at a 30% premium. There is our demographics for that, again I tend to look at the top left which says it is driven by higher income groups which is understandable. Horrid chart again, let's get rid of that and go through this one more quickly, so a 13% increase that's worth £6 million. The price per volume as it has got more mainstream has actually dropped so we've got a very big volume increase of 21% from one year to the next and we've got about a third of the country buying these things in a year but that has increased by 20% on previous years so a big increase, each of those are buying more and perhaps the purchase frequency dipped a bit because there may have been promotions driving that or whatever, but anyway, it is a market in a very healthy state indeed. It is not even worth commenting now, I guess you get the general message and I can speed up a bit more now seeing as I have another 500 charts to get through.

Why is this interesting? Well this is the share of pre-packed bananas in grocery as a whole but once again I am looking for something that is the tipping point, that is moving into the mainstream, as I was with eggs and this is a really good example of consumer attitudes and behaviour really changing. That's what's been happening at Sainsbury's. A couple of dips there because of promotions on other sectors of banana but you can actually see over to the right all of a sudden that fair trade bananas are 60% by value of the banana market in Sainsbury's. Well I can confidently predict that will increase to 100% because Sainsbury's are only going to sell fair trade bananas so that number is going to head north in a big way. And why is that important? We're not niche, we're not M&S, we're not Waitrose, we're mainstream, Sainsbury's is a mass market retailer but they have pinned their flag to the mast by saying we will only sell fair trade bananas.

Organic, market on the move, over a billion pounds, £1.1 billion on our measurement. You may come across numbers from the Soil Association that quote organic foods in this country at around £1.5 billion and the only reason for the difference is that they will be making an assumption about certain organic products and I can only call it organic when I get an organic description on the bar code so there is a bit of an issue there but the main issue is the rapid growth of this market. But beware though, this can happen. My wife got this in an organic box and gave a squeal of shock, or was it delight? She had a hell of a job to peel it I can tell you. But that's what organic products are doing and again there is quite a strong link to higher income groups but it isn't one that is so biased away from children. You may have noticed quite a lot of these markets, as you have more children in the market they will tend to have a lower share because children cost money and

therefore mitigate against the premium sectors but in this case we do have organic appealing to young households with children.

Now this is very interesting. We have a 9.3% increase and that is on its way to £100 million of extra business in organic food grocery trade from one year to the next, so let's get rid of that, let's talk this through. There's my 9.3%, the price is slightly below inflation so it is real volume growth. We get a very stunning statistic now, it is 84% of the country have bought organic in a year. We have got electronic evidence of that, it's not people claiming because I often aim off the claims, they can claim all sorts of things, but it is actually what they actually do and is electronically recorded. There in the final bit is much more frequent purchasing and incidentally the trip volume is pretty meaningless because volume across total organic, we really are adding oranges and lemons together so it is difficult to get the true volume measure but if we look at ... I call that a result. This is important because some people get very excited so just a cautionary tale here. People say ah, 84% of people buying organic is really mainstream isn't it? Well be careful because sometimes this sort of thing happens in a market and you get a very strong skew. We have got 16% of organic buyers purchase only once in a year and they only account for 1% of spend, perhaps they bought by accident by drinking too much of that lager. On the other extreme we have got the serious mob, 12% of organic buyers represent two thirds of the money spend on organics. In other words there is a huge skew and in fact it is quite common, in fact you might have done it yourself, you actually prefer the look of the organic vegetables but it doesn't mean you are an organic buyer or you might have wanted a certain type of mushroom that is only available on the organic counter and not on the non-organic counter and of course people just get confused. Here is an example of an old biddy being confused. [Laughter]

Interestingly, just looking at outlets in this country, I know this is a UK specific thing if you are out of the country but these are the market shares in organic and it is remarkable when you compare it with the till roll share which is the general measure of grocery trading that tells me that Waitrose punches above its weight to a factor of nearly five or an index of 470. Similarly Sainsbury's which is a much more mass market outlet, nevertheless over trades in organic products to a factor of about 60% so huge biases going on there. In fact if you graph these things out, once again we do have Waitrose really messing things up by not following a straight line progression. In other words, the organic index for the outlet until you get to Waitrose almost gives you a straight line relationship with the social class of the shopper so Sainsbury's whilst it is mass market does have a better class of shopper there.

If we look at the total organics products, obviously "I am prepared to pay more for organic food" is the obvious answer but after that we are getting free range, environmentally friendly, provenance, local produce etc, so it is looking very familiar. If I look at the ones that are the opposite "I consider price is the most important factor when buying a product", put a hyphen and the word not after

that because that number of 53 is below 100 which means that they are disagreeing with the statement. So these are statements which organic buyers totally disagree with. I am worried about eating healthily, I don't think health foods are just for fanatics and price is relatively unimportant, it is right down the agenda, and we don't have any smoking in the house either, thank you very much.

Green and Blacks, why have I picked that one? Again a bit of a niche chocolate but it is interesting because this is an example of trying to get organic into the mainstream. Organic on its own isn't a claim, it has to mean something else, so you have to believe it tastes better, is better for your health, better for the planet but organic on its own isn't really a claim. Green and Blacks must have realised this because they link organic to provenance and fair trade, we know where the product has come from, therefore product quality, and when you look at the lifestyles on that, it is fairly obvious demographics so when we looked at the lifestyles in fact the one that comes top is "I regard myself as a connoisseur of food and wine", not "I am interested in organic and fair trade" although that is the next one. In other words, it is the dinner party chocolate of choice rather than being worthy, I think is the best word I could use.

Penultimate section here, environmentally friendly, very quickly. Ecovert, been around for ages, European product run out of Belgium, so environmentally friendly that my wife was an early adopter of this many years ago and the product took a large amount of the environment and deposited it over everything in the dishwasher but I think everything has improved since then. Niche, it is only about 4% of washing up liquids, at a premium to the market, very small share of household markets but growing and growing despite the fact that it has been around for a very long time but really a very committed, very extreme demographic there. Also funnily enough here, although we are talking environment, it is younger age groups. Once you get to that age you say sod the environment anyway. [Laughter] It all links, there's not really any point in marking these up, it is the usual suspect, all the same stuff.

What about the retailers? Here is Waitrose, very, very strong on all of these issues. All these numbers are quite high – prepared to pay more for organic food to a factor of 188, so nearly twice as likely, and obviously connoisseur of food and wine. Same thing for Sainsbury's. all the same things but the numbers are lower because it is more mass market so it is not quite so extreme but nevertheless it is in that direction. These are the Waitrose share indices on all the things I've been talking about, so for example the market share of Ecovert in Waitrose is four times its national share. Similarly it is twice as important for free range eggs than its market share would have you believe. Same thing for Sainsbury's but lower numbers by and large. Why is that important? All of these things are where price is unimportant, they are not buying on price. And a final little thing here, something a little bit esoteric for the market researchers amongst you. This is Sainsbury's switching, in other

words gains it has made from other retailers and before I get shot, the one from Morrison's isn't because they are shredding Morrison's particularly but it is because at the time they were getting rid of some Safeway outlets so it is a slightly artificial reason. I'm saying that because I know there are some Morrison's people in the audience and I haven't got a car outside with the engine running. It is an interesting one but you will notice that Sainsbury's there were losing to M&S and Tesco, but if I look at the people who are ethically aware Sainsbury's is actually gaining from those accounts at the bottom, particularly from Tesco who have reversed the trend. So this is important, appealing to these people can be particularly important.

Okay, you thought I'd never get around to is – let's talk about bread. The number of times consumed per person per annum of bread or rolls or whatever, very important. It is not quite the favourite thing, it's cups of tea in this country that is the most buy occasion, but bread and bread rolls are right up there, absolutely massively important as if you didn't know. This is almost upside down, rather like Top of the Pops, sandwiches are the nation's favourite meal in fact in terms of meal occasion, the number of times eaten per week, sandwiches are the favourite occasion and obviously you have got lunch boxes in there as well as the family eating a meal. But we have a decline in bread volumes and you must be fairly familiar with UK retail, this is long term going back to 1994 and you can see a general drift downwards, perhaps not continuous – there was a rather scary period there – but we have a decline and even on the latest year, bread market is down a bit so a little bit of gloom there. What is actually happening about consumption, these are things we've been eating more of, this is admittedly 2006 versus 2005 but these are foods in terms of meal occasions, not buying but meal occasions, that have been going up so which are the ones that have been going down? Unfortunately sandwiches occur in that as well although to balance it you have some of the more upmarket sandwich emporiums at the moment. Nevertheless, the volume measure of bread is not terribly positive but you might have noticed it has got more expensive, certainly flour has, and this is the price progression on the average 800g equivalent loaf, an industry standard measure. Back here, I know this is an average but we were also going through the silly period of 11p loaves and 3p cans of baked beans. We actually lost the contract for Cross and Blackwell data because the chairman told me he couldn't can air for that money.

Anyway, here we go, and we are actually finding that bread is getting expensive so what is actually happening? Have we countered any pressure on the volume by just jacking the price up? No. What's actually happening, and bearing in mind what I have been talking about so far for the past couple of hours is that we have a growth in premium bread. In fact look at the bottom, economy bread, the cheap stuff, the packaging material, people are not buying that. Yes, it still has some sales but the real growth in bread is actually getting back to putting value in the market, is in fact the premium bread and I do apologise about this, I'm sorry and I know the session is chaired by Ross

Warburton and I haven't colluded with him but it is actually the best case history we've got of what's been happening in the bread market. If I look at the progression for Warburtons there you can see growth of the Warburton share of the bars. Now admittedly the premium has partly come down and part of the reason for that is that as Warburtons become bigger they become part of the average so there is actually quite a lot of just straight maths in there but we have a smartly growing market share at a fat premium to the market average price of bread. Now that is good news because of the fact that a basic market like bread is not being bought on price. In fact the other thing about that, quite unusually for the markets we look at, is that it is branded sector that is doing all the growth instead of the private label growth so it is quite a different market picture. And they have been doing it without actually over promoting or giving away, this is looking at the sales index and if we look at temporary price reductions, it is less common to see that on Warburtons than it is on other branded and private label. If we look at two for the price of one kind of thing, very unlikely to get that on Warburtons, they are mean people. [Laughter] But you are likely to get it on other branded and the sort of Y for X, two for 99p I think was one of the things operating a while ago in bread, very unlikely here, much more likely in other brands in the sector. In other words, not only are they not buying bread on price, they are increasingly buying Warburtons without being incentivised to do it by bribery.

Let's look at total wrapped bread. This is again a horrid chart so let's get rid of that and talk through this. What have we got? Despite the volume decline we have got 9.5% growth in the value of the market, it is about 1.3 and a bit billion pounds worth going through on bread. Price per volume is up 11% and volume down 1.5% but as I say that isn't just from putting the prices up. Prices have gone up, yes, but there was a structural change in the market whereby the premium sector has increased. Here, are you surprised, in a year 99% of the country buy bread. I have to tell you that on our statistics 97% of the country buy toilet tissue. [Laughter] I'll just leave that thought with you! And obviously volume is under pressure but it is that at the same time which is a remarkable achievement. Obviously the volume decline may be a concern but at least the figures are helpful.

Let's also look at morning goods since we are talking bakery. Here is it is a bit of a different picture and I can't be terribly clear about it because unfortunately morning goods is a complete mish-mash of all sorts of stuff in there but it is a bakery market and we are measuring it at about £1.3billion, a similar sort of size. Here there appear to be more positive figures right across the board, 5% growth, worth £67-68 million worth. Price per pack is hardly changed but of course it is an awful mish-mash of different things but we do have an actual volume growth in this market, once again a huge penetration as you'd expect and so on. People buying more frequently so it could be that rolls and croissants are becoming more of a household feature. That's what the sector sizes look like, the biggest sector is what is intriguingly called soft, this is obviously soft rolls and so on but obviously you would think of hot cross buns,

massively seasonal and at the peak of the season they come to about 20% of the morning goods market but it is difficult to make a conclusion on this other than obviously the sector as a whole does seem to be in reasonable health because unlike bread there is actually some sector growth in the market as a whole.

Now for the last few slides, of course if we have adding value back into the bread market and it isn't being bought on price, is it any surprise that the retailers have clocked this and are doing it themselves? So here is Tesco Finest bread in Tesco and okay it is a bit niche, it is only 4% at the moment but rapidly growing and selling at a premium although they have come a long way down, it is more of a sort of drop in premium than you'd expect. That's Taste the Difference in Sainsbury's, 5% share of the bread market and nearly a 20% premium, so once again it is rapid growth, doubling the share and yet it costs more so that has got to be good news for bread. That's what the shares look like so once again we see if anything a decline in the cheap bread and quite a sharp increase for the expensive bread and similarly in Sainsbury's, despite the fact that they re-launched the product away from economy and low price, there was actually a big re-launch of the range last year, nevertheless the basic loaf has not increased its sales, all of the very substantial sales growth has come through Taste the Difference so at risk of repeating myself, not buying on price.

So let's wrap up. The price paradox – I was talking at the beginning, we have more money, food has got cheaper and therefore people are not buying as cheap as possible, they are not behaving in the normal economic way of the lower the price the more they'll buy, it is much more complicated than that. Tomatoes, soup, eggs – a very good example. Why eggs? It's mainstream, over half the market, it's happened. Fair trade, in the case of bananas in certain areas, it's happened, you can now in certain outlets only buy fair trade bananas. Other areas like coffee and vegetables may be a bit slower to get going. Organic is one the move. It is niche, it is small but it is over a billion pound market and growing substantially. Then we have the environment which links with all of these. Okay, it's not edible stuff but we are talking about people being concerned about the environment, the discussions about the planet outside this presentation, discussions about recycling, rubbish collection and so on. Then a bit of stuff about retailers and then I actually reminded myself to talk to you about bread.

So there we are, thank you very much for listening to me.

[Applause]

ROSS WARBURTON:

Thank you very much Ed for a fascinating and extremely amusing presentation. We didn't collude but I'm extremely glad that you managed to speak for so long on the subject without using the word that appears in our

offices at least, premiumisation, which I looked up in the Oxford English Dictionary but never seems to exist. Some fascinating food for thought and who would like to go first on the questions?

MAN:

Fascinating talk. You commented Edward on the role that fair trade and organics and feel good have had on the sales of our foods. Would you like to comment on what impact the concept of health and lifestyle and nutrition has had or are likely to have on the growth of certain sectors of our food?

ED GARNER:

In fact I don't want to sound like it's a sales pitch but we are in the midst of finishing a project to nutritionally code all our markets so instead of splitting a market by manufacturer or brand or area of country or social class, we should be able to analyse market by salt, sugar and fat levels. I haven't got to that yet, it is a huge project and we've got tens of thousands of bar codes to go through and also dimension them over time but I think that will start to give us some great insights. I mean, looking at what we've got so far, looking at top line data, what I have seen is growth of healthy foods, there is a big growth in total fruit and vegetables and that's worth about £8 billion and growing well ahead of inflation. We are getting real volume growth in foods there. The fastest growing protein sector now is fish with people taking on board messages there so I think all of that is moving ahead very, very smartly. The other thing I have noticed is people moving away from the low carb, low fat option rather to try and get the original product but with reduced consumption of it. I mean okay we've had the demise of the Atkins Diet and in fact the demise of Dr Atkins himself, the whole idea there and I think a lot of manufacturers piled into this but at some point the consumers and people I know certainly said, low carb chocolate, what is that about? In the case of balance, eat healthily, chocolate isn't a problem. In fact actually some of the dietary foods have also come under pressure, in other words people are concerned about paying more for a low fat version, why not actually get the real one and eat more sensibly as a diet. Obviously this is marginal because as you pointed out we do see obesity levels increasing. Even if we are eating more healthily, perhaps we are eating more because we are still getting fatter at the moment I think but the biggest movement I do see is in things like fruit and vegetables. There are some big movements behind that, five a day, fruit in schools, remove the fizzy drinks machines from the schools, so there is some fairly ground swell stuff. There are messages coming out, you don't read articles saying eat more chips do you? It doesn't work like that. Having said that, if you take a company like McCains which make oven chips, their market is declining but their sales have been okay because you will have seen posters pointing out it is potatoes and actually we don't do too much to them, it is all good and goes all the way from muddy potatoes to chips. But chips are down, crisps are down, fizzy drinks are down, fruit is up, vegetables are up, fish is up, so stuff is happening, definitely.

**DUNCAN MONROE:**

Duncan Monroe, Carr's Flour Mills. Is it possible do you think for an established brand to reposition itself to reflect some of the trends you are talking about in terms of the values for money, so for example organic or caring about the environment. Can an established brand reposition itself to reflect those consumer desires?

**ED GARNER:**

A huge marketing question I think really. Repositioning is sometimes quite a dangerous thing because your whole advertising dosage and everything is having to fight against the heritage of the brand to change its direction. There has been some classic examples of brands changing direction, Lucozade is probably one of the best. It was what you had when you were ill, now it is what you have to keep you healthy. I think the big danger with this particularly, you have to look at the heritage of the brand and where it's come from because there is a big danger if you suddenly say hey, all of a sudden we're ethical, the first reaction from people is going to be to say, come on, do me a favour, look what you've done in the past. I won't mention any products or I'll get into big trouble here but there are examples of people who have suddenly tried to do ethical or health clothing. Well McDonald's with fast food, they have actually made some real attempts to change their menu and with chicken and salads rather than burgers. Having said that, it has been met with a blizzard of opposition hasn't it? Oh can they really mean it? Now they are selling Innocent Smoothies and that's caused a huge furore with people saying Innocent is selling out so it is a very dangerous course to follow and if you look at Nestle, they are looking at fair trade coffee but they are calling it Partners Blend, they aren't suddenly saying Nescafé has suddenly changed its spots overnight and is now a fair trade brand. That may come in time but it is certainly a dangerous thing to do straight away with an iconic brand that is worth millions of pounds. Does that make sense to you? You have got to look at where you have come from before you take that decision I think. You don't invest millions over decades, which is what big brands have had done on them, and then suddenly change the direction against the heritage.

**IAN BACKHOUSE:**

Ian Backhouse, National Farmers Union. How sensitive do you believe the growth in premier brands is to either a fall in household disposable income or an increase in the overall price of food in general. If all food was to increase in price and there was less money available for the premium brands, how strong do you think that growth in the premium brands is?

**ED GARNER:**

Sometimes behaviour can be counter cyclical. If I take the first part of the question, if there is a decline in disposable income, there is plenty of other things which can be cut back on before one cuts back on the food. It is the sort of thing which may cause a problem with housing, new car purchasing where we have had slumps in the past, are we going to re-do the kitchen or

buy a new television, those sorts of things are fairly easy to postpone and I don't know that the first reaction to life getting hard is immediately to downshift in the supermarket. I mean obviously for certain people that must be the case because whilst I've been happily talking about premium brands, obviously there is a proportion of the country that will only buy on price because that's all they can afford to do. So I don't know that that's the issue. If food as a whole starts getting more expensive and actually climbs as a proportion of the household budget then that perhaps may become more of an issue but as I say, there are loads of other things we are spending money on. Food and drink is 8% of the household budget, if money gets tight is food going to be the first one to be cut or do we go out to restaurants less, do we put off replacing the car? Lots of other things that can happen before somebody says I'd rather get some food that doesn't taste as good. You can argue with me, it's not a company view, it is just me off the top of my head there but it is quite common for things of be counter cyclical. Premium fragrances and cosmetics sometimes actually increase their sales when money gets tighter. That's women for you! [Laughter]

TONY WOLF:

Tony Wolf, Frank Roberts. You show a willingness to pay for premium products and that's been going on for some time, what work has been done on the correlation between marketing spend and premium consumption?

ED GARNER:

Obviously whether it is marketing spend, whether it is PR, whether it is people's knowledge from whatever source to pay a premium. People are logical ultimately, there has to be a reason to pay a premium even if it is a purely emotional reasons, a premium fragrance, people paying a fortune for handbags etc, they are still buying an emotional benefit. I think, well the biggest premium range in the country would be Tesco Finest, it has been advertised, it is widely available, I think what it exists as is as a reassurance and I think they would be playing with fire if they cut corners, you bought it and it was rubbish, that would be quite a dangerous thing to do. These things come from all sources, it isn't just advertising. For instance sales of basic porridge have gone up substantially over the last few years, that's not advertising. I know you can advertise porridge but just ordinary pillow pack porridge oats have shown huge sales increases of perhaps 20% per annum over the last few years and that's because there have been articles about it, it's PR, people have been reading articles and believing that. That's actually an interesting one because people worry that you have to pay more to be healthy and porridge is one of the cheapest breakfasts you can have, yet it's sales increase has been mainly in social class A/B so it is not a money thing, it is an awareness education thing. I think you have to be careful ... Yes, so there are more subtle ways than just advertising a product and so on, that over time is becoming less of an issue. There was a time, and there is the whole issue of media fragmentation and how people find out about things and once upon a time the classic 30 second spot in the middle of Corrie had

everybody rushing out but now people have to believe a lot more. You don't just suddenly say it's organic and people will beat a path to your door, this requires a longer term softly-softly approach of provenance, belief and so on. I think it is possible to get growth without large amounts of advertising money but the ethics and that somehow you have to get across the message that you believe what you are doing. The biggest danger here is having the whistle blown on you in any of these areas like the scare around were free range eggs really free range, a cover story in the Daily Mail. One way or another, it isn't the money, you have to engender the belief and rapport between the purchaser and the product because at the end of the day in all grocery products we are looking at repeat purchasing, we are not selling out of a suitcase in Oxford Street where one quick smarmy deal will get you home. People have got to come back again and believe it. But it isn't just money.

**PETER JONES:**

Peter Jones at Speedibake. A lot of what you have talked about is of course the retail market, do you think people behave the same way in the food service sector and given the absence of solid information in that area do you have any plans to shine a brighter light on it to tell us what is going on?

**ED GARNER:**

That is interesting. That works on other dimensions because there is also a very strong enjoyment reason for eating out or can't be bothered to cook kind of thing but for certain people they might like to read that it is local produce and free range eggs and certain restaurants capitalise on that and that's how they operate. But you are right, there is a layer that is interposed between knowing what's gone into the ingredients and what's on your plate. I don't know, it's not as clear cut as in retail, it may become so. Certain people, such as the Marks and Spencer's in store cafés will only sell free trade coffee now and free range eggs are used in the products so it is there but I don't know, I think if you go out for a good evening's dinner and you are a guest and you start asking about are the eggs free range and so on, you start sounding a bit American aren't you really? [Laughter]

**ROSS WARTBURTON:**

Can we have one final question please?

**ANNE BRUCE:**

Anne Bruce from British Baker. I noticed in your presentation that one of the categories that people filled in were that the supermarkets were becoming too powerful and people were more likely to buy premium products, with this move towards values for money, would you anticipate that the supermarket's share of that market will go down in future as people shop more locally etc?

**ED GARNER:**

It would be nice if they did, unfortunately as I said in the presentation, I tend to prefer looking at what people do rather than what they say. We have plenty of

vegetarians who buy bacon and things like that on our panel so the retailers, if I take Tesco for example, you could say in the chattering classes there is a backlash, Tesco are too big, Tescopoly, Tesco Towns, you have all read the articles. When I look at what people are doing, every annual period more people are shopping in Tesco and all of them are paying more money in Tesco and every four weeks two-thirds of this country shops in Tesco. So if you are actually looking at what people are doing, there isn't the backlash. Not that I'm an apologist for Tesco, knowing how they run their business they are ferociously driven by listening to the consumer and rather than see the business go off to the local shops, one of the first things Tesco would be doing is talking about provenance and upgrading the supply chain of their food. Take the example of Waitrose, okay it is a niche player with about 4% of grocery trading in this country but it is growing, it is doing very well indeed and you go in the shop to buy apples and there will be a picture of the person that grew them and they'll tell them about them and you can go on their website and read pages about their fish farming, the Marine Stewardship Council and so on. It is a nice idea and it would work, it doesn't just mean – well look at the independent sector as a whole with your local shop, that has been in decline for decades but it isn't a coherent class of trade. The lazy ones who just complain about supermarket pricing and are just putting canned goods on the shelf, they are out of business and have declined. The true local shops, which is what I think you are thinking about, that really are connected to local provenance and have a catchment area that is understanding what they are doing, they are actually doing very well so certain parts of the independent trade have been very successful at living in their community, knowing their shoppers and providing local food. Having said that, I don't see, certainly in the case of Tesco's, Sainsbury's, Asda and Morrison's, who do actually listen to the consumer a lot, they are not going to suddenly roll over and die and see their business move away. In fact it will probably increase their local sourcing and some of the retailers have an entire department to get local sourcing and we can see that. The other thing that we are going to see now which everybody is talking about is the opening of Whole Foods Market down in Kensington which is real designer top end provenance and organic and so on and I think the biggest impact of that store is going to make all the other retailers sit up and take notice rather than everybody go off and shop there.

ROSS WARBURTON:

Thank you very much indeed for all of your questions and I would like to particularly thank Ed for doing such a good job this morning and a presentation rich in both substance and humour, thanks very much indeed Ed.

[Applause]

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