

The Federation of Bakers Annual Conference – 20<sup>th</sup> May 2009

## “THE CUSTOMER MATTERS”

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TESCO**

Firstly, I would like to thank you for inviting me to address your Conference today. I stumbled across a quote which I think sums up the nature of my talk today, ‘Designing your product for monetization first and people second will probably leave you with neither’. Simply said, but I think at the heart of a shared need to always put the customer first in all we do. It’s a fundamental truth about all successful manufacturers and retailers in these days of ever increasing demands from our customers.

But before I explore this further, a little of my journey to I guess add to what Joe said. As many of you do know, I previously worked in the Bakery category from 2004-2007 for RHM, before returning to the packaged grocery industry. I sat in the audience of this Conference in 2006, and I certainly didn’t foresee that I would ever be here addressing you guys, and let alone in the role of a retailer! When I was approached to apply for my current role in Tesco’s I immediately knew that I wanted to return and am definitely enjoying the challenge, and it’s actually 5 months now Joe but yes it feels like a lifetime already. Bakery is an industry that is full of many challenges, but also of immense importance to our customers. Everybody has an opinion and an emotional response to the category and I think that emotional response is very very important. I stand before you today as a customer, somebody who has been a former manufacturer and a current retailer and I hope that that allows me a different perspective and a valuable opinion, but I’ll let you guys tell me about that later.

A little bit about Tesco. At Tesco we are committed to this industry and the importance it has in our overall store offer. We have a history of challenging the norms and taking brave decisions, and I’ll pick out a roll out of the industry basket of one of those and I was standing the other side of the fence when Tesco took that decision some years ago. Our strategic intent is broadening globally, in non-food and retailing services, we are still a Grocer at heart and a grocer with a passion for giving the customer what they want, and we know that they want great quality bakery products for a fair price and always available. Many of you have got a big part to play in this in the coming years I hope .

My personal challenge in bakery over the coming year is twofold. Firstly, to continue to keep product availability at the heart of my customer focus. You all have a significant role to play in keeping products on the shelf and helping to delight our customers when they can find them. I think we’ve got to continue to challenge the norms which exist to drive cost out for the customer and improve efficiency. Secondly, I need to reflect the fact that we need to be more flexible in the way that we range our products on the shelf, so that the broad church of Tesco customers can always get the product they want in our bakeries. A more sophisticated view of what customers want dependent upon their lifestage and demography will make our

ranges more efficient and effective, without reducing the choice for those customers. But I think that is probably more than enough about my internal Tesco challenges.

I have called my discussion, Customer Matters, and I truly believe that this is at the heart of maintaining a vibrant and sustainable industry in the face of the current economic climate. I do not stand here today to say that retailers and suppliers will not have robust and challenging discussions about our respective positions, but I do say that we need to work as an industry to persuade people to eat more of our products, more often. One of the first things that I learnt when I started my career as a salesman was that it is far easier to be successful if my offer was demanded by customers and had an incontrovertible benefit for them. I would add that customer understanding is even more important when economic times are tougher and value for money becomes a greater choice denominator.

So, what are customers telling us at the moment? In a recent Nielsen report 86% of people polled, said that they felt negative about job prospects, I feel a little bit like I'm following on from John here, and 66% thought that their finances would be 'not so good' or 'bad' in the coming months. This backs up our Tesco research which actually says that food pricing is now the number 1 priority for consumers when making choices about where to shop and what to buy when in store. It is also impossible to open a newspaper or turn on the television without some reference to the credit crunch or the global world financial crisis. A combination of consumer sentiment, real economic tightening and significant global raw material price increases are all materially affecting behaviour in our industry.

IGD conducted some research in 2008 to look at the changes in shopper trends as a result of the economic situation. 27% of customers reported that they are shopping around more, 25% said they are spending more time shopping and 21% said they were walking to the shops more (which is supported by growth levels we are seeing in the Express format). The most significant change is that 40% of respondents said that they were buying more promotions. In the 12 weeks leading to mid April this year some 40% of Plant Bread volume was sold on deal in the multiples versus 26% the prior year, indicating that customers are looking for increased value in our industry.

We must also be aware that customers are becoming more concerned with food waste and the government has been very vocal with its campaign to reduce food waste this year. I have seen research suggesting that customers are looking to freeze more bread and throw less away. I applaud this initiative to reduce waste and preserve natural resources in a time when global demand is rising, but there is a spectre of significant volume decline for all of us if we don't work to help customers in the wake of bread de-regulation and give the right solutions for those customers who might otherwise leave the market or shop less frequently.

However, there are some potential benefits for our category from the recession. Customers are reporting that they are eating out less and having fewer takeaways. TNS have recently conducted research which states that 28m people consumed 4.2 billion lunchboxes in the last year. A 5.7% rise in a market worth £4.7bn to the UK grocery industry. At £1.30 the average lunchbox costs significantly less than a

bought lunch and baked goods have a significant opportunity to take a share of this growth.

It is also heartening to see the sales of plant bread increasing in the most recent periods to back up the customer feedback on packing more lunches and eating in. In many ways this is driven by better value through promotions and certainly in Tesco, our continued commitment to retailer brands. However, we cannot rest on our laurels and assume this is the start of an unstoppable regeneration. It is a moment in time when the tide is in our favour and consumers are recognising the relevance of our products and an opportunity to keep this momentum by finding our voice as an industry and prove that 'customer matters'. I am firmly of the belief that growing the category is more sustainable for all of us than share stealing. I believe that we can all take a more active role in promoting bakery for its health, great taste and ultimate practicality.

I would hold up the cereal industry as a potent example of trying to drive consumption. Only last week, an article in the Daily Mail caught my eye. The headline was 'Forget your costly sports drink, try a bowl of Corn Flakes instead'. The article continues, 'Eating a bowl of cereal beats guzzling an expensive sports drink after a workout, say scientists... the scientists from Texas University, found both the snack and energy drink replenished depleted glycogen, but the cereal encouraged greater glycogen storage'. Now in itself a story that's probably not easy for customers to understand but certainly more news for that industry around the benefits of eating cereal. Who can't remember the Wholegrain Nation ads and green band on Nestle breakfast cereals? So I hold the cereal industry up as somebody who is doing something to try and grow consumption

Are we pro-active enough in this industry in talking about the positive aspects of our products? I applaud the recent editorial in the British Baker which highlighted the need to 'concentrate on the positives'. I do tire of the quarterly scare stories about salt, not because I don't think we should act responsibly, but because I am sad that we appear on the back foot in positively promoting our fantastic products. In April, we had the 'vegetarian' scare and only two weeks ago an article in the Sunday Times linked the destruction of the habitat of the Orang Utan to the growth in Palm oil plantations. Guess what, some of your members were highlighted as using this in their products and contributing to the demise of this endangered species.

Can we stop the flow of poor publicity? The answer to this is probably not. Can we do more to accentuate the positives of our products and our industry to consumers? Absolutely. The Customer matters and they need to be enticed, reassured and delighted every time they buy one of our products and every time they use them.

Looking to the future, and I'm going to be a little bit more positive here, we are going to exit the current economic cycle, albeit, it looks a long way off at the moment, with headlines such as that showing 15,000 job losses at BT and a 50% increase in household repossessions in the first three months of the year. When we do begin to pull out of recession, what we will probably see is a less cavalier attitude to credit and a more sensible approach to saving by consumers. I also hope we will also see a return to consumers craving increased quality and new and exciting NPD. Let's do

what we can to ensure that all of the customers who are re-appraising bakery now, continue to do so once we are out of the recession.

I hope that I have at least sparked some thought with this short appraisal of the current climate and how it affects our industry. I don't apologise for concentrating my dialogue on the customer and avoiding the structure of the industry. I have neither the time nor the deep expertise in these matters to pass comment at this point. I will continue to be a firm believer in meeting the needs of the customer as a way to deliver a robust and thriving industry and I look forward to discussing with you all ways to do this in the future.

My final thought as a father of two sons who both enjoy all things Winnie the Pooh is a passage from the house at Pooh Corner in which Winnie perhaps sums up what I have tried to convey:

**"When you wake up in the morning, Pooh,' said Piglet at last, 'what's the first thing you say to yourself?'**

**'What's for breakfast?' said Pooh. 'What do you say, Piglet?'**

**'I say, I wonder what's going to happen exciting today?' said Piglet.**

**Pooh nodded thoughtfully. 'It's the same thing,' he said."**

Is that exciting thing Cornflakes and milk or a crumpet, muffin or slice of toast? Our battle is not just for breakfast, but for all occasions when our products are eaten..... Let's delight and entice our customers whenever they are 'in the Bakery'.

Thank you all for your attention.

Applause.