

"Low Cost Food "

Bart Dalla Mura

The UK Baking Industry is a cornerstone of the grocery market. Food retailers' reputation for service and quality can be enhanced or tarnished by the range, freshness and display of their bakery departments. Bread and bakery goods have around 99% penetration and some customers will abandon

journeys if bread is unavailable. In this discussion I am going to focus on bread, but I believe the story is similar for all areas of bakery and food in general.

Bread is a wonderful food, it provides more calories per penny than most; The industry is complex and sophisticated; Allied Bakeries alone manufactures and distributes around 40 million bakery items via 90,000 deliveries every week. Yet the industry makes very little money according to David Lang at Investec.

The retailers have responded to consumer demand for low cost food and we have supported them. Bread in the UK is cheaper than almost anywhere else in the western world.

Food has operated below the RPI consistently over the past 10 years, and bread has had even less inflation.

The industry took cost out to continue to meet the demand of lower prices. The cost was taken out in a number of ways, but a prime method was to reduce manufacturing facilities (as did many grocery suppliers) and make use of the UK's improving transport system. This allowed us to make bread and deliver at the same or better freshness with fewer sites. We didn't get enough cost out to meet the reduced prices, which has led to our poor profitability.

The impact of making use of roads and closing sites has been dramatic. Road tonnage has increased by 70% in 15 years, air freight by 77% in the last 10. The cost of this is reflected in congestion charges, increased car tax, flight taxes etc, so the cost has moved - not gone away.

Good, affordable food is everybody's right, and as a wealthy civilised society we should ensure everyone can eat well. As bakers we should be proud that the bakery sector has played an important part in making it possible.

If we look at the impact of low cost food on daily lives, an interesting picture emerges. The decline in consumption in bread is obvious to us all, and has been continuing for years, well before Atkins. What is surprising is despite the improving relative value of bread as a nutritious food the rate of decline in consumption by lower income households is faster than that of higher income groups.

Although household food has become increasingly affordable, we are consuming less and less at home, but it is being consumed somewhere. The rates of increase in obesity in the UK is currently a hot topic, but it has been going on for years. The cost of premature deaths from obesity is £2.5 bn per annum; how much of the extra £25 bn now pumped into the health service vs 1997 will be used to tackle these issues?

I considered whether the money saved on food would be put aside for Pensions or used to provide better clothes, housing etc. Consumer expenditure has outstripped any rise in available disposable income from food and other 'necessity' deflation. It has exploded, not only are we not saving, this has reduced from 10% of household income to 5% over the last 10 years but we are borrowing. Personal debt is now £158 bn, trebling since 1992, and nearly twice the size of the NHS budget.

What are we spending it on - not food, not clothing or housing, but eating out, leisure and recreation - and what can only be described as stuff.

The UK produces a million tonnes of electro scrap annually, British shoppers got through 8 billion plastic bags last year. We now produce 25% more waste per head than we did twenty years ago. We are recycling half the increase, but if we just produced less waste we'd save much time, energy and money. I am willing to bet that a proportion of my council tax increase this year will be from rising waste management costs.

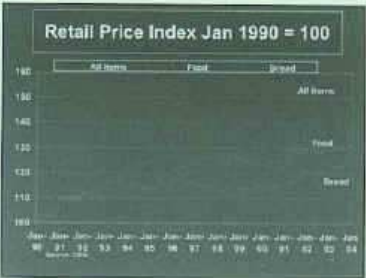
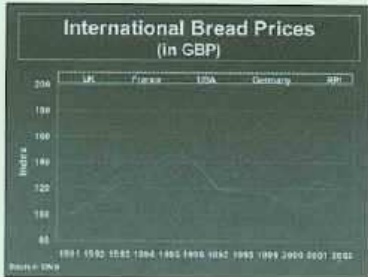
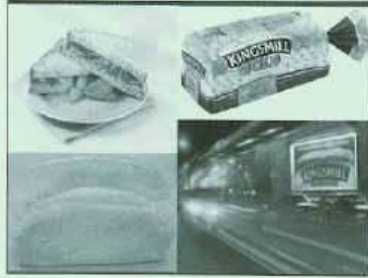
My view is that there is -no evidence for genuine consumer demand for low cost food. We have made good food very affordable allowing many to spend money on more and more non-essential items. The cost is coming back at us and will for future generations as the environmental impact of the waste and pollution takes its toll.

We can do something and we should. We should start charging and getting consumers and customers to pay the true value of products and services, visibly and up front because there is less and less demand for low priced food but it is costing all of us, not just the baking industry, a fortune.

Only by getting more money for our products will our industry begin to make reasonable returns, without them we will not be able to invest in our business and the infrastructure will become less and less sustainable.

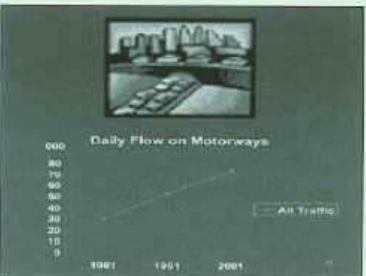
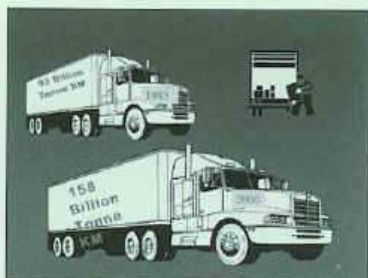
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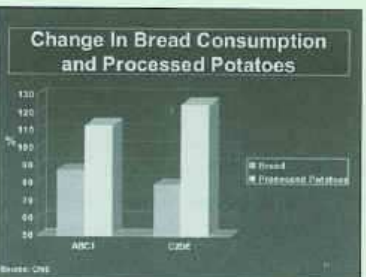
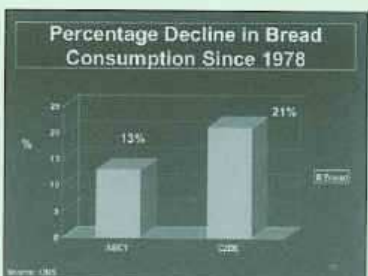
Food Retailer Mission

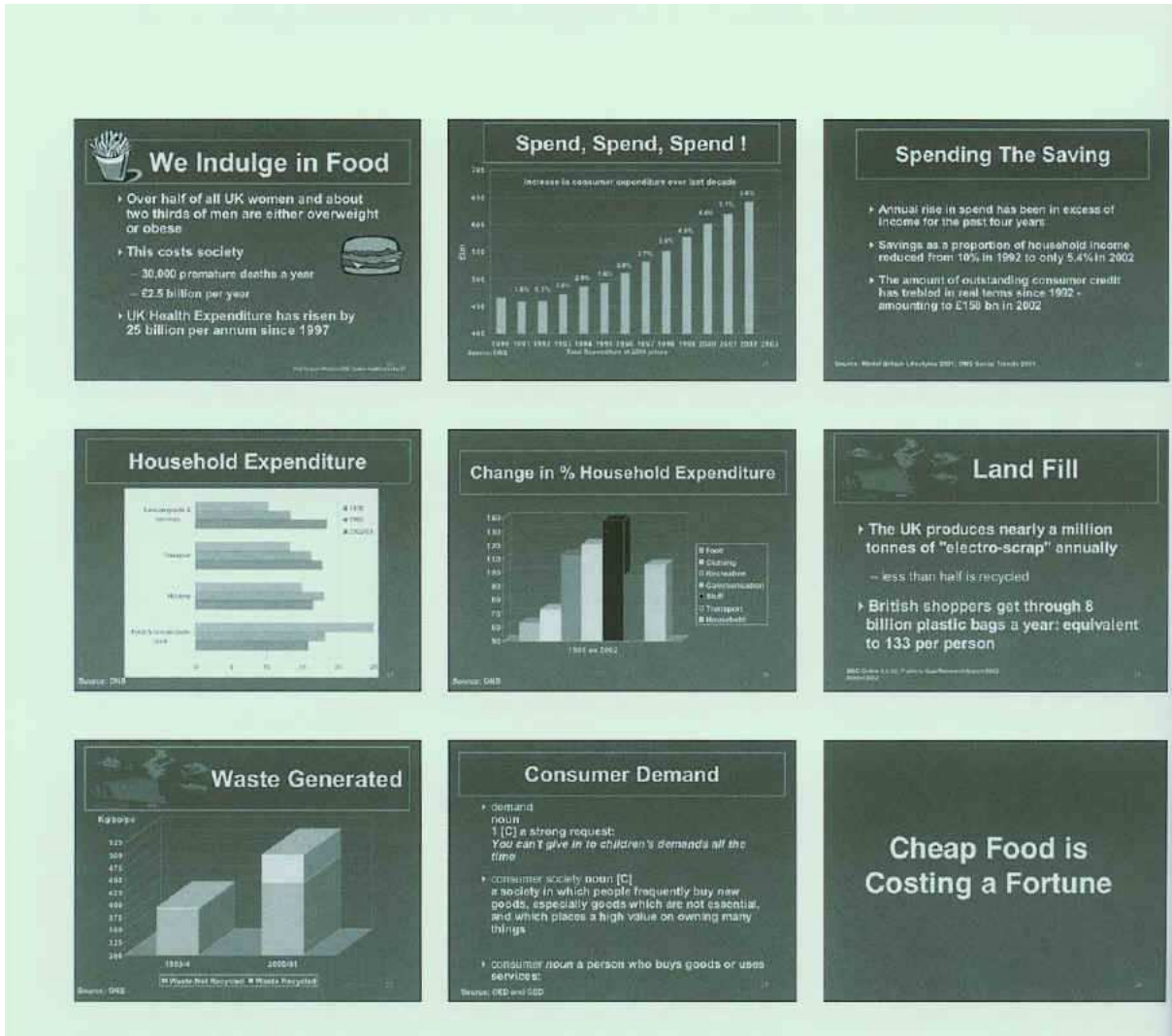
- "The Consumer Demands Low Cost Food"
- "Good Food Costs Less"
- "Every Little Helps"
- "Low Prices for Life"
- "Lower Prices Forever"



Air Freight

- *Air Freight up by 77% since 1992 to 2.2 million tonnes
- *Passengers up 76% to 189 million





Question: Adrian Weatherly

Do you think there's a threshold of shelf life beyond which it would be economic to import food products from overseas, I'm thinking about Eastern Europe enlargement. What do you think the shelf life from a safety point view of the supermarkets might be that goods with a longer shelf life can be imported from Poland or Czechislovakia particularly as we have seen, that you mention the importing of goods by aeroplanes.

Answer - Technically I don't think the supermarkets take any risks at all and they've got very good technical departments. So

I don't think they'll take any known risks with products from overseas but again its about balanced playing fields and things coming in from overseas don't pay any tax on air freight. The social services expenditure, the expenditure on education per head, all those things are unbalanced in those countries compared to what we pay per head here. So our farmers and our manufacturers relatively have to make more money in order to pay for our social infrastructure and we buy from countries that don't do that so there needs to be a way of leveling those playing fields and so I think that the issue about shelf life, yes there will be some, but technology has found a way. When I was

first in chilled foods the shelf life on a ready meal was three days and its now up to five or six and that's done by improved technology, so they'll find a way of investing with this great market here.

Question: John White, London

In terms of the charts you showed about the decline in the consumption of food from ONS was that in home consumption or overall consumption?

Answer - That was household consumption.

So that's implying the take up from eating out but also foodservice and sandwiches. Do you detect the same kind of pressure for low cost sandwiches and so on from the foodservice sector that you've been talking about in relation to retailers?

Answer - Yes there is always a pressure on low cost but we society must, and I admire Sainsburys because they are about trying to add more services in and value, the interesting thing is that the convenience sector, they want to lower the prices in the convenience sector and those stores are open a lot of hours per day. They are empty half the time and they are very convenient, and so we pay for convenience, but to take that cost out of there and there isn't anywhere for the cost to come

through for the consumer we know how that's going to get paid for. So I think that the pressure will come all the way down the line whilst we treat food as a commodity that should be the cheapest.

I just wonder what the reaction of the retailers has been when you do this kind of presentation to them looking for your price rises.

I think the pressure on the retailers will continue as they try and get more and more people to their stores to buy more and more stuff. The great difficulty for most of the retailers with the Safeway takeover that's the last big land bank in order to get space. The Walmart model lives on the fact that you can sell more and more stuff and if you want more space you just build some more cheaply on the back of your store which is what you can do in the United States and

other parts of the world but not here. So I think the challenge for all of them, they will need to see some way of getting more value for that shopping basket and not just make the shopping basket bigger so its not very popular saying we think food is too cheap in this country. But if you compare it to the United States where you would expect bread and bakery to be very cheap, it is very expensive.

Question -Alan Stuart

I never thought I would sit in an audience of bakers and hear someone express such refreshing views so I would like to congratulate Bart on his excellent address. One small question - I just wonder how you've managed to survive three years with Allied?

Answer - Well if I work it out I'll let you know.