



### Bakery - A Retail View Huw Edwards

Good afternoon everybody. I will probably pick up on the theme that was shared earlier today, and I will share with you some of the thoughts we've got in the market place at the moment and some of the things that are exercising us in terms of how we respond to the customer. I think as a starter really, the key thing for me is the customer has never known more than she does today, or he does today, about the product they are buying, so they become ever more demanding and they've also never had more choice. So with that background it makes our job tougher if you like to respond to them but obviously there are rewards to be had if you respond to that challenge. And I guess you are a bad retailer if you ignore your customers' needs. At best you are an adequate retailer if you respond to your customers need, you are a good retailer if you anticipate your customers needs, and that's what we obviously try and do.

So let's just have a look at the market place, what's happening in the market place as a background to that. Pretty rosy picture really I would say. We should all be pleased to say that the bakery market is growing 6.5% year on year and that's a very healthy place to be and that's underpinned by a volume growth of 3%, not only are we growing the value of our business, we are actually growing the volume of our business and that's got to be good news. And I think as a background, when the Atkins thing came on the scene we all said that's not a great place to be for the bakery industry and what we are seeing now is a backlash from that as that's gone into the background and faded we've got growth coming back into the industry. So good news really, and I think it's particularly good as the biggest trend out there is towards healthy eating.

How does that break down? The further good news really is that all three sectors as defined by TNS are in growth. Morning goods in growth at 4%, Cakes are in growth at 5.3% and Bread in growth at 9.7% and again all of those sectors are showing good volume growth as well. Probably the least volume growth is in bread where we have seen far more of the growth being delivered by premiumisation, people buying better its better products than volume growth. That's hardly surprising when 99% of people have already bought into the category.

Just to have a look at that in a bit more detail, and if we look at bread, I am pleased to say bread is probably the leader in this area. As you can see we are showing growth both in InStore bread and bought-in bread. In bought-in I think there are a number of things that have been driving that growth. Firstly for us it's all been about maintaining a good price position whilst allowing customers to trade up into better products. Also it's been about promotional strategy so we as you know as a business have focused our efforts on being EDLP. We probably went a little bit too purist at one stage and what we've done since then, which has driven our business, is we've maintained a good base price position to give good value to the customer but then we've used a promotional strategy to trade them into better products and encourage

trial, and I think the mix of those two strategies has been a balanced use of those mechanics and has really helped us grow the business.

Everybody this morning has talked about premiumisation and its absolutely clear looking at the market from our perspective that is exactly what is happening. People are buying into better breads, eating better breads and as a manufacturing base and a set of retails across the board we've done a reasonable job for the customer in bringing new types of bread and new eating experiences to the customer, and I think that's why we've got such a healthy business between us, and if anything that trend is accelerating so we certainly haven't hit the peak of that yet.

Another real facet for us is localness. I said earlier on that I think the customers never had more choice and never knew more about the product. They've also never had such a customised market place so if you go onto the internet to buy product it's really customised for you, you can choose how you want to buy product, what you want to look at, how you

search it, etc. Now that's great but it makes even more demands on fixed point retailing. So how do you customise your product for each customer that comes into your store? Certainly it's true of our business and I think it's true of every other major retailers, we have a very wide variety of customers coming in and if we want to succeed we have to have something for everybody, and the thing that we have focused on in as a business, not just in bakery, but across the base, is localness, so bringing local products to customers in the local market as well as bringing the benefits of the buying power of our business to give them great prices on national brands. So that's driving great for us. I think the other thing we've done which has really accelerated our business this year is we have done local modulars, so every store has its own modular. For those of you who don't know what I mean by modular, that's the planogram which actually makes sure we've got the right products at the right volumes on display so we maximise availability to the customer. By doing that we've taken some tough decisions as well about national brands so we've selected out products where they don't have a place in that market place so if there are three big brands we might only do two of them in a store because that's what is relevant to that consumer in that store and what we've learnt from that really is when you look at our business store by store what we thought was fairly uniform was not. There are massive differences. In Scotland we'll sell an awful lot of Kingsmill, in the south we'll sell an awful lot of Hovis and it's not even confined to broad geographical groups, you can get a store right in the middle of the cluster where Hovis sells well but so does Kingsmill. So that's been a great learning point for us and we've seen real benefits for the customer.

As I said the customers have never had more choice. One of the difficult things we have to do as retailers is, we have to edit the choice because there is now so much choice it almost paralyses the customer in front of the fixture. Just far too much to look at and select from. Bearing in mind the customer might spend 20 seconds in a bread aisle you've got to make it easy for the customer to find what they want and by having too many SKU's you can actually destroy it and make it difficult. And this may come as a surprise but customers don't particularly enjoy grocery shopping, it's a chore so my making it easy for them you win them over. If you make it difficult for customers they don't want to come and see you and I've sat in listening group after listening group where customers said if you make it difficult I will just go to one of your competitors. So everything we do in the industry must be about making the shopping experience easy. Generally if you are a housewife you will come into one of our stores at 4 o'clock, you've got to pick the kids up at half past 4 and you've got to be out of the door by twenty five past 4, if you make it difficult less goes in the basket.

So absolutely localness has been a key part of success for us, getting the range right by store has been a key part of success for us and I think that's probably the key drivers of the bought in business.

If I move over to the In Store business - actually our In Store business is growing faster than our bought in business at the moment which goes against some of the trends we talked about this morning, and I don't think that where the markets grown slower it's about lack of demand from the customer, the key issue, and I'm sure this is true for competitors is how do we keep product on display. What we are trying to do - none of you who are manufacturers in here would ever dream of trying to produce the same product in 330 different factories and expect to get the same products out every time. We as retailers trying to be manufacturers try and do that in 330 factories across the country and the reason why we had

inhibited growth if you like in that area is that we haven't been good at it, and what we've certainly done this year is focus very much on operational excellence. So we have a network of stores which we call 'stores of learning'. We've upgraded the packages that people get there to make sure they are fit for the job when

they come out, that's really driven our business, and we've got a team of specialists who go out and relaunch stores that are driving success. So we've relaunched 45 stores this year, they were failing stores at the beginning of the year, they are now providing customer service and great quality product and that's really driving growth for us in In-Store bakeries.

I think probably the other thing that's been a trend for us this year is, I think as Asda we were behind the curve in terms of producing more interesting specialty products, I think our competitors were better at it than we were, we've launched a lot more specialty products this year and it has really paid off this year and I think that we need to do more of that as the market changes quite dynamically.

So that's a bit about bread. To the same point on the cake area, as we've seen the total markets growing, its actually far more volume growth than we've seen in bread because there's less inflation but I think the interesting thing is, on the one hand you've got a trend of healthy eating and you've got another trend going alongside it which you'd think would be, couldn't happen at the same time, but you've got indulgence growth and I think what we've seen in the market place is that if customers want a cake its got to be worth the calories, its absolutely got to be worth it and a compromised product which is slightly healthier doesn't do it for them. We've always overtraded in healthy cake, we really pushed it hard four years ago and we've maintained that overtrade but it's very clear that demand for that product is falling off. There will always be a place for it but actually what's far more important to the customer is, if I'm going to get a cake or an indulgent product, its got to be truly indulgent, its got to be worth eating and its got to be a real treat, and certainly in the latest developments we've put on the shelf that's where we've gone. So we've really seen again premiumisation going into this business. I think the other big trend for me is portion control, so what we are seeing is a real fall off of big products, so a whole cake or something isn't really what the customer wants now because they are going to be tempted, they'll have two portions, and they'll keep going back to it until they've eaten the whole thing. What's far more successful is to produce a really great product in a, say two portion pack, where you have the treat, its gone, there's no more temptation and you get back to eating your salads.

So I think that's a real opportunity for all of us as we go forward. So its about portion, its about really great products, and we've just launched a muffin, an extra special muffin, a chocolate muffin that's got 80% more chocolate than anybody else's muffin and it is real death by chocolate and its really been a wow! Again we've put that in a two portion pack and that's been the right thing to do. So that's a good example of that.

Small cake, much the same. Again we've got to deliver great indulgence to the customer. It's a tough challenge though, because actually I don't know if you've picked this up, but now cakes are being banned from kids lunchboxes. A lot of local authorities now will not allow you to put a chocolate product in a kid's lunchbox, so what was a major part of that market is starting to be turned off from us. So its all about looking at other avenues to grow that business, and again I think the indulgence area is where you can make a difference, get people to trade into a much better product.

Just the other big area for us is morning goods. Again strong growth coming in, strong volume growth coming in. For us its being driven by innovation, so a lot more specialty products coming in. We have had particular success with some Italian products we've brought into that range. Another big area, I'd say its the Achilles heel, if I walk into our stores and I walk into our competitor's stores, the area which has the least good availability is morning goods and we've done an awful lot of work on pack sizes, on different ways of distributing it to make sure that we actually do satisfy the customer. Again its not a product that's necessarily going to be on your shopping list, if its not there then you've lost that sale, so the real challenge for us have been to really improve the availability there both from the In Store produced product and for the bought in product, and that's certainly how we are getting our growth. And I think, as I say, as I walk around the stores thats the Achilles heel for everybody. But it very much is something that is a very expandable category still. And again we have just launched a lot of products as extra special in that area like Extra Special Croissants' etc and they are doing very well.

If I look at growth its really being driven by areas that we haven't been big into. We've got 80% growth in Extra Special which is phenomenal. As a business we've launched 800 products recently, and obviously I've heard in the other presentations everybody else has done similar exercises but you can see that trend coming in. The other thing that is really growing at great pace is organics where our market is growing at 50% at the moment in organics. I think that's not the road, we've been in catch up. I think JS have done a fantastic job on organics and we're really following that one. Obviously our aim is to catch you up and overtake you!

So really a very good place to be. All the markets are growing both in volume and sales and it seems we are pressing the right buttons for the customers.

As I said health is a big trend. Obviously we saw Atkins come and gradually disappear and that's been good for our market place. Incidentally I don't think we have covered ourselves in glory here in terms of the way we've marketed it jointly, whether it be us as retailers or the manufacturing base. If I look at the cereals business they have plastered every TV screen and magazine with wholegrain and healthiness and everything else. I think we've not done enough that we've actually stopped ourselves growing as much as we could because we haven't put enough effort in educating customers how good that part of their diet being bakery is good for them and I think its something we've all got to get together and do more of as we go forward. So I think it's a challenge that we're taking up with our supplier base but I honestly think all of us need to play a part in that because I don't think many of the faddy diets have done us any flavours and they've not been justified in things that they've showed bakery to be. I still think there's lots more growth opportunities in the health area.

Clearly we know customers are much more aware of the health benefits etc, or not, as the case may be, of products but that doesn't stop us if we do the right thing for them, so as I said no reason why we cant do indulgent products as long as we balance it out. Certainly we'll respond to that challenge. I think the launches that happened over the last few months have been great for the industry across the branded areas. We've launched a lot of them ourselves and we're seeing great benefit from it so where we've got Omega SKU's we're obviously actively taking HVO's out of our products which is a key wish from our customers and they're absolutely looking for products that are genuinely better for them. So things like

wholegrain products etc are high on the agenda, we'll be taking anything that comes out of the brand and we've got a big programme of own label products in that area as well. And as I said we are really pushing hard on our supplier base to give us those products.

I've talked about the cake category, I think it's a very interesting dynamic and we've really stopped pushing in that area because it is definitely not moving forward, we'll maintain it but we are not really going to push hard on it.

Indulgence we've talked about a lot already but there is no doubt there is a massive trend towards indulgent products and the customer really does see the bakery as a destination for indulgent products and one of the big successes we've had is in the way we display our products, we've brought all desserts and cream cakes together and made a big feature of them in store and that's really driven sales for us because its make it a destination for customers, its been a real draw into our bakeries and driven success for us.

I talked about In Store cake but again the customer perception of that area is that it is more indulgent than standard cake and therefore if you launch indulgent products in there you can succeed, again as I said portion products being really successful. Bite size products have really been a massive part of the growth that we've had in In-Store cake.

Again we've talked about premiumisation and there's absolutely a real drive into premium breads.

Getting the range right - as I said earlier there are a mass of products available for us to sell but one of the things that customers are demanding from us is edited choice. Our customers are very time poor, they've got more money in their purses and wallets but they've got less time to spend and so when they come to a retailer which is effectively your shop front for your products, they expect us to choose what are the best products, so we don't want 16 different Bakewells, what we want is probably 3 Bakewells, one which serves the basic needs for customers who just want the basic product, another mid market product and something that's the best Bakewell you've ever had in your life, not three different tertiary brands, two big brands, your own label product etc, so we've done an awful lot of work on that across all ranges and its really paid off. And buyers are very protective of products, if you've spent a lot of time getting a product on a shelf its your little baby and you are not going to let go of it and if I lose than I'm losing my sale and what we've really had to do is prise these products out of the buyers hands and be really focused on delivering what the customer actually wants, and it does pay off.

Pricing and promotion I think I've covered already but we are very clear that we are the customers agents as retailers, we absolutely have to deliver product, make product more affordable for our customers. That doesn't mean devaluing the product unnecessarily, it means just giving them great value but we also have a responsibility of encouraging the customer to try something new, try something different that's actually

going to bring improvement to their lives, so in terms of using promotional strategy we've used that really to try to get people to buy into it. For instance the big Extra Special launch that we've just done we've put in at introductory prices to encourage customers to have a go, to try it, and that's really paying off for us in terms of getting people to understand that there are really some fantastic bakery products out there.

I just want to talk through a few things I think are really really high on the customers agenda and they are not necessarily restricted to bakery, they are just general issues,

and they are things that for us are really important and they are things that are really educating our strategy as we go forward. So I've mentioned local, we have really focused on local as business, we've really tried to customise our offer as far as we can to the customers needs in that locality. Its paid off and its not only about providing the customer with the right products its also about responding to some of the other agenda that are out there, so by buying local products and putting them in local stores we do reduce our impact on the environment, we do reduce food miles, we are seen to be and we are actually supporting local communities, and more and more corporate reputation plays a part in where people go to buy their services and you can see it already in the type of advertising that's coming out from various companies, whether it be the Co-Op Bank or indeed Tesco's, everybody is starting to shout about their ethical standards and the way they do business. We also see when companies get bad press because they either get too big or they ignore customer needs, it can have a real impact on their performance. So the local is really important.

Ethical sourcing is also massively important but there are an awful lot of dilemmas in terms of ethical sourcing as well. For instance in the UK we don't buy GM Soya but where does most non-GM Soya come from, a lot of it comes from the Amazon rainforests where we're actually destroying the rainforest, so how do you tackle that dilemma because you don't want to be seen as aiding and abetting people ruining the Amazon so you've got to find a way of providing what the customer wants in terms of Soya. There are lots of minefields out there. As a business we are absolutely looking at everything we do and looking at making sure we are doing business ethically, we think its really important and very high on our customer agenda, but it's a long hard job.

Sustainability - well we've just sat through that energy presentation, we've heard an awful lot about energy costs etc, the great thing about sustainability is its great for business and its great for our corporate reputation, so using less energy, having less carbon impact on our environment and avoiding all the fines that are coming down the road in terms of legislation for dumping products etc are all making us more efficient, so you are killing two birds with one stone here. We've just had our first eco store signed off which is going to be in Bootle in Liverpool. I think what's going to happen going forward actually is we wont be allowed to build supermarkets unless they reduce the carbon footprint first, because I think local authorities wont let us do it, so whether we wanted to or not I think we are going to have to do it, but its good business for us and we've heard lots about greenwash etc in the press so I think the stance we are taking is we'll get on and do it, we're not going to shout too loud about it until we've actually done a lot of stuff which actually makes a difference.

Organics - we're seeing 50% of growth in organics, that will continue to expand. It's a very small part of our business at the moment but it is very clear to us that you have to be in the organics game to get the customer through the door, even if they only buy one or two products out of all the products they buy from you, they expect it to be there and if its not there you lose the customer. I know there was a bit of a debate this morning about how important organics is going to get, its crucial, and it will get more and more important as we go forward and it absolutely informs the debate on health as well because a lot of organic products are bought by parents, so they see that as a way of protecting their children against pesticides etc. So it's not just about, I want to eat organic, it's all about health as well.

Health continues to be one of the biggest drivers of what we do. There's all this debate going on about the traffic light system etc but whatever the result is we have got to be better at informing our customers of what are products are going to do to their bodies, how much impact they have on their health etc and be proactive in driving it. I was in the States recently and wholegrain, there were just acres of wholegrain across the fixtures, we are way behind on the wholegrain thing as just one example in the health agenda. So there's loads to do there and loads of potential growth for us in that.

Quality, again we talked about indulgence which just shows the customer appreciating more and more great products. You are not in the game if you don't have good quality products and therefore we are focusing a awful lot on making sure what we buy, what we start off buying is what we get through the door, spend much more time auditing our products to make sure the customer gets a great end product, and as I

said we put an awful lot of emphasis on our In Store business in terms of having people out there re-launching stores that our failing. In terms of our In Store business, the customers love it. It's the only way of giving them great crusty bread, but that's no good if that particular store hasn't got a great team in there who are delivering that day in and day out, and for us our agenda is warm bread all day.

For us certainly it's very important because I think it's Points of Difference that will make you drive past a store so it's not just about building your bakery business, for us it's a real Point of Difference against a store that hasn't got a great bakery.

Inspiration - as I said our customers are really time poor, they haven't got time to think of what they want to eat tonight, what they want is somebody to say look - here's a great combination, it's all done for you, take those three items off the shelf and you've got a meal, or you've got a solution to whatever meal occasion it is. You put a sandwich filling together with the bread etc. Another thing we are looking at is how we do that, whether it be through cross merchandising, whether it's on-shelf information etc to try and help customers with what they need to do to feed the family. Less and less people are actually shopping with a shopping list. They are actually relying on the store to suggest to them what the solutions are for their family.

You might be surprised that in a presentation by somebody from Asda that price is on the bottom. The reason that price is on the bottom is not because it's not important it's just you're not even in the game if you haven't got the price right, so all of these things are add ons to that, we don't have a place in the marketplace if we don't have the price right, so it's at the bottom. All the rest of it is adding value to what we do.

To me those are the things on the customers agenda and those are things that actually we should be exercising about, we should be thinking about how we give them solutions for all those problems.

The last thing I want to talk about is the things that help us deliver for the customer rather than what the customers thinking about. I think it was mentioned earlier, one of the big issues for all of us who operate In Store bakeries is skill levels. It's being able to get enough bakers to run those bakeries effectively and it's really tough to find them and it's tough to keep them. So again we are looking at all the things we need to do to retain that skill level in the business.

Availability, big issue for us, we are fourth out of four as a business against the other supermarkets and the customer doesn't run out at home to come to the store to find you have run out and clearly it's something we need to fix. It's the

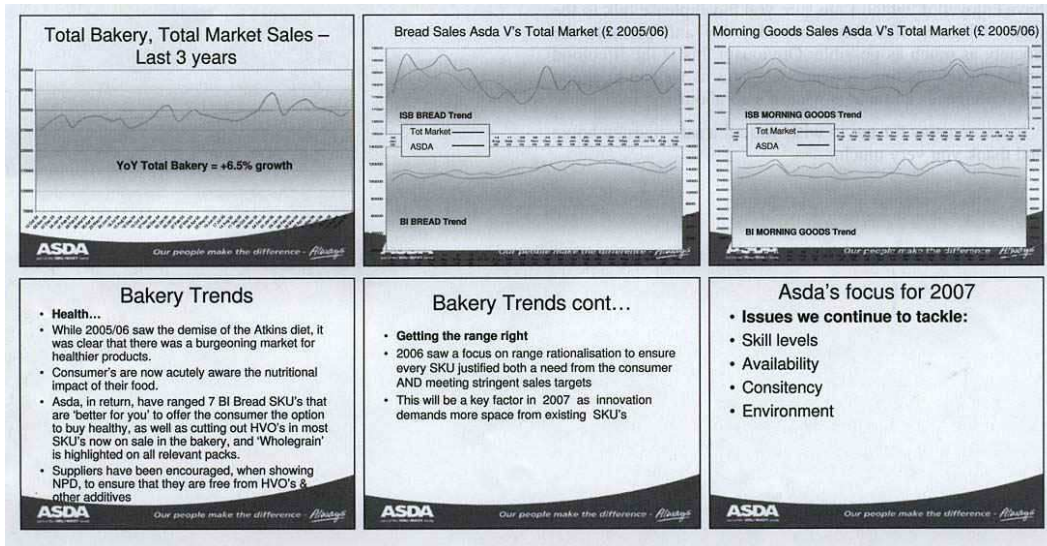
biggest thing in our business to fix and we are starting to make headway but it's a long way to go. And again we need your help on that one because it is about people in our stores and how we work but it's also about what comes in the back door and how accurate that is. I know we are talking to a number of people about that at the moment.

Consistency - particularly for our In Store offer. If In Store product is indulgent and seen as indulgent by the customer it's got to be consistent and if it's not we haven't delivered.

In a shopping environment we are putting better and better products into our stores, what we can't have is stores that are clinical, we've got to have stores that are inspirational, that feel like craft bakeries etc and I'd say as a business we need to do a little bit of work on that so it's something we are trying to do at the moment.

So my summary of that is the market is growing which is great for all of us. The customer continues to demand more of us and we've got to deliver jointly. Indulgence products must be worth the calories. We need to communicate the wholesomeness of our products, we don't do a good job at the moment jointly, we've got to up our game and a sustainable industry is also an efficient and profitable one, so we are helping the customer and helping ourselves if we get there with that.

I hope that helps you understand some things, obviously I am only one retailer but I am sure the issues I am grappling with are common to my competitors and I hope it informs you of what we are doing and helps you respond to it so that we can do the right thing for the customer.



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Questions: Ann Bruce, Crawley - Will you be baking organic In Store, or will it be a case of buying it in?

Answer: All our organic product is bought in at the moment. We are not baking it In Store purely because we cannot satisfy the Soil Association of requirements with the ovens and we can't actually have an oven or product area that's dedicated. What we are looking at is can we get

products that bake in packaging so that we can maintain the integrity of the product. We would very much like to be doing it, its not that we don't have an ambition to do it, we've got to find a way of doing it well.

Question: John Lindsay, Chester - When you joined the department 12/18 months ago you said one of your key objectives was to make the department stand out visually, have more impact, be more distinctive. How do you think you are doing in that respect?

Answer: The honest answer is we haven't made any physical changes in the department yet; we have been tackling other issues. But we've done quite a lot of work on it and we've got some more reinvention going on around store that we need to tie into, but I would see we would be doing some trial work early in the New Year on that one.

Question: Sylvia Macdonald, Croydon - You said in the UK we are nothing like as efficient as the Americans at promoting whole grain, what should we be doing better more PR, more advertising, highlight it much more on the packaging, or all of those things?

Answer: The easy answer is to say all of them. I think what I was saying really in terms of America was just the shelf space was massively more than we've got in the UK at the moment. I'm not sure I know exactly what they are doing in terms of promotion but I think its, one, about making sure we've got the right products out there in the first place, two, making sure that at the point of purchase we are communicating effectively with customers, they understand what the benefits are of wholegrain, and thirdly, its how we then go outside of that in terms of advertising etc to lift the profile of wholegrain, not just wholegrain, wholegrain is one issue, but the healthiness of bakery products within the diet. I just don't think that we've got our share of voice when I look at other industries, like the cereal industry. And I think the great thing for us is that cereals have done the hard work for us, they've already told the customer that wholegrain is great for you, all we need to do is piggyback that and get on the case really so they see that that's happening in bread.

Question: Andrew Williams, London - In what ways would you like to see your suppliers behaving more green, more sustainability and is food miles a big issue for you?

Answer: I think we've just got to take an efficient customer response here. Nobody wants to spend money on fuel and energy and therefore we've got to be looking at what can we do with our energy bills or food miles, anything we do really to save energy, whether its making sure the warehouse door is closed or whether its finding more fuel efficient ways of baking, insulating factories etc. Its just looking at it and saying if we are going to win because actually all of us in here need to cooperate, whether we are competitors or not in terms of driving the bakery agenda because the enemy is not another baker, the enemy is other forms of carbohydrate. If we are the most efficient producers of carbohydrate, we'll have the best prices in the market place, we'll have the best value in the market place and the customers will come to us. That's one issue. And if we market it correctly people understand what the benefits are we'll win in the market place, they'll eat less pasta or rice and more bread and cake or whatever. So I haven't got a simple solution to it but we really need to look at what we are doing and do it better.