

“How to Face the Challenges of Today's Markets”

John Waterfield



So Waterfields, this is what Jean asked us to present, what the future holds and that is a really difficult question for us because we have no idea what the future holds. As a business that sort of says we should be looking at the strategy of the business, we should have a business plan in place, we should know exactly where we are going to go. We don't have any of those. What we do have is a thought process, so today I want to try and share with you that sort of thought process. By trying to be too restrictive by having that business plan it was almost preventing us being fluid within the business. So it's just about trying to go through that process and share it with you.

A little bit about the company first and foremost. Who are we? This is one of our shops. We have 37 shops, in fact 38 shops one opened today. Jack of all trades, we are not a specialist. We do savouries, we do sandwiches, we do breads, we do creams, we do wedding cake, we do chocolates, we do a bit of everything really. A range of cream cakes, a range of breads.

What I would say is that's all I'm going to show you about the bakery – its an open invitation, get on the M6, get off at Junction 23 and come and see us. That's what it's about. It's an open business, if you want to come and find out a bit more about us, please take the time to come visit us.

Turnover over this year we hope to do about £13million, that's made up in a way of 94/5% of it is from our own shops and the remaining 6% is made up through the wholesale we do. That's through independent retailers and also a little outside

catering. We employ just short of 600 staff. Full time equivalent is round about 380. That's made up by 115 in the bakery. We have administration, ancillary which accounts for about another 60 staff and then the rest of the people are around the shops.

The shops are based in West Lancashire, Merseyside, Cheshire, we are at the furthest extremity to the east, we don't go into the Manchester area, but all our shops are within a 35 mile radius.

Trading mix – savouries 36%, sandwich and drinks 27%, bread and rolls 19%, cream confectionery is 18%. You can see from that mix we have a bias towards the lunchtime trade but we've also got strong sales both in bread and rolls and creams and confectionery.

So yes, we are strong in the lunchtime trade but we are also fairly strong on the traditional bakery lines, and where we are seeing growth at the moment is on the bread and rolls. We are seeing growth patterns there of 7/8% at the moment. We've seen what we felt was going to be terminal decline on the creams and confectionery but actually we are now starting to see a little bit of growth in that area as well.

So it's almost, perhaps the traditional bakery is not doomed to disappear. Perhaps there is an interest to come back. I would like to have John's average sale of £13 or possibly £20 but ours is there in black and white at £2.05.

In order to keep us on an even keel we have three external influences on the business. We have been an Investor in People since 1993, that is really just converting the ideas that we have as a management team, making sure that gets through to the people, making sure we are recognising the people, making sure that the way that we want those people to respond to the business and to contribute to the business. Externally someone will come in and say what is your business plan? And we will say we've not got a business plan. We'll say where is the company going, so we'll ask the people and they'll come back and we'll have that conversation back with ourselves on the management team and say right there seems to be parity between what the staff are expecting from the business and what we want. So we have Investors in People.

We are Gold members of the British Sandwich Association. That takes us from the back door of the bakery right through to the shops, we'll make sure that our transport is correct, we'll make sure that our refrigeration standards are correct in the shops, and that is probably going to give us the best commercial advantage, because we advertise the fact that we are Gold members of the British Sandwich Association and they will help us to develop that side of the market place, which is a big side of the business for us.

We've also played a little bit with dealing with the multiple retailers so we are accredited by the British Retail Consortium. We currently don't do any business with the multiples. We made a conscious decision to pull out of that. They were giving us business which was really clashing with what we were trying to achieve. They may have been 10% of our turnover but it was taking 90% of our time. They were demanding very much on what the business was all about and we said we would deal with them, yes it gave us money, yes it helped us to set standards in the bakery, but really it didn't allow us to develop our business and move it forward. So we are not saying 'no' we are not going to supply the multiples in the future, but I think if we are going to supply them we've got to try a mix that suits ourselves and suits the bakery.

So those are the external influences that keep us on an even keel.

In order to try and decide what we are doing for the future, I think it's about looking at what's happened in the past. The biggest one has been the supermarkets and gaining the sort of strength that they've gained, probably going back over the last 20/30 years, but more in the last five years.

I don't think its all bad, there's a couple of positive things that have come out of there. They've certainly the variety and they've certainly increased the quality of the product that they are producing. Things like chibattas, breads and cakes that are coming into the market, that is certainly getting product recognition for our customers, so it's a good stepping stone for ourselves. We can then get out there and build on that, produce the product better in our opinion, and in our opinion fresher, and to build our business. We produced the croissant 50 years ago and everyone looked at a croissant and said what the hell is that. Now there is a common factor right away through the UK.

Other things we are not quite so keen on is the proverbial basket. Everyone is competing and they're definitely pushing down the prices and they set this expectation for discounting of products and this is really where we are a little bit

concerned. I saw an advert on TV last week and they were advertising almost, take all the brands, buy for one week and get the second week free. It's all about two for one and bogof (buy one get one free) orders, 10%'s. This then is filtering through to the High Street and the High Street is now starting to expect that, so the January sale is now the January/February/March/April and so on sale. Everyone is trying to promote. They are doing it within the travel industry; they are doing it in the service industry. Everybody is on that side, so there's definitely an expectation for discounting products. But unfortunately as well people are expecting the same value for that discounted product. If you buy a Mueller Light and you get two for one, they're not make a slightly smaller Mueller Light, so they maintain the profit, what they are doing is setting the expectation that the customer wants a discount, they want a benefit for it but they are not prepared to compromise on that product that you are buying from them.

And they are certainly reshaping the High Street. That is probably one of the biggest challenges we've got. I think within the northwest of England, competition, village life, is still fairly active. The town streets are still fairly buoyant. There are some areas where it's quite poor and that is taking people out of the High Street but that is really one of our biggest areas because the majority of our business is done on the High Street.

Customer time is definitely at a premium. We've heard this before this morning; it's about splitting it into the convenience aspect of it, and the leisure aspect of it. If its convenience they want it serving quicker, faster, better. If its leisure they want to utilise that time that they created into the leisure market.

This is also something that has now started to kick into our business. I finished my training about 25 years ago; I think that was round about the introduction of the YTS. The YTS came in , that started to deskill it so when I was at college there was 90 people on the course itself, full timers. Salford College has gone the way of many other colleges now so over the past those bakers really came through the market but the last five years we are now starting to struggle to get the skills into the bakery. So many of the things have been about deskilling, trying to mechanise, we are at the stage now where actually we want to be reskilling. About how we can bring those skills into the bakery when the platform is not there to develop these skills for the future.

Questions that we ask ourselves – these are the key ones. We've got to know what the market place is. We've got to know who our competition are, and we've got to know where we stand within that, we've got to know ourselves. We have to decide as a business what we are going to do, are we going to compete or are we going to try and differentiate. And the most fundamental question we've got to know here is

that why should our customers come to Waterfields as against going to other shops, and if we can't answer that question then presumably the customers can't answer that question either.

As an individual I try to think in pictures, as a better way than words and this is trying to visualise in my mind how it is where we stand in the market place. If we take the line down the left hand side this is the price of the products, cheap, expensive and also the market place that we are in there, in the convenience side or in the leisure side.

To look at this, this is how I see us. The convenient market there, you've got your bargain basement, your cheaper end bakers and there you've got your supermarkets. Your products cheap, it's definitely not leisure market but it's something you need to have. By the time you spend a little bit more money and you're getting very much more into the leisure market, it's a bit more expensive, people are definitely into that sort of time. I also put in the category of leisure the specialist shops where you really want to go through that. John is a prime example; we also had Stephen before as well – two prime examples where it's definitely becoming a destination. So we sit and are very mindful of this, that we sit very much within that convenient market. We are not in the leisure market we are providing your bread and butter products into that. Exactly where we stand and how we respond within that convenience market is the question we need to be asking ourselves.

We never say we are going to be a Starbucks, we're not going to get £2.50 for a Latte, we are not going to be in that market place but we would like to become more of a destination. We certainly want to get out of the cheap under valued products market place.

Just to recap we don't see that we are in the leisure market, we see ourselves very much as quality convenience, so we want people coming in on the High Street, we want to make that quick sale but we want them also to be a little more, ideally a destination.

To expand on that a little bit, because of the size of the business we have a relatively large business, we can be big enough to compete, so if the competition is there, it's driving out the sausage rolls either 3 for £1, 3 for £1.20, if we want to, we can compete in that market place. So we can definitely move ahead on the price if we need to do. It's not something we necessarily want to do, but, we can do it if we need to.

We recognise as well, because of the size of the business, we are too big to specialise. We can't really specialise in the high crafted element of the business. This is really where you get the small businesses which can adapt, can charge, and give that personal service. The nature of the business is trying to communicate that to 600 people and to try to get them to respond effectively. It saying we are in that convenience market, lets embrace it, but leisure perhaps is not a good fit for us. Having said that we believe we are small enough to adapt to the market place and we have enough expertise within the organisation to be able to respond quickly to the ideas. So if we come here to the show today and see a good idea, we would expect to be able to take that idea, in a perfect world we can develop the product, we can market the product, we can get the product out to the shops and we'll do that within four weeks. If we can to do it really quickly we can get it into the shops within a week, so we can adapt and we can change fairly quickly. We are not that big where it's a massive line that has to change over one period of time, we are still small enough and quick enough to adapt to that market.

Going back to the initial stage about being big enough to compete on price. The reason we don't want to compete on price is because we want to take the base product and add the craft element to it, where we can. We can do that through the skilled bakers we have employed in the business.

I've already spoken to you about the fact that craft bakers are a dying breed and we recognise if we want to be reskilling our products we want to create that point of difference, then in order to do that we have got to have those skilled bakers in place, and that is something we are actively working on as a business. its not about the NVQ's, not about the underpinning knowledge, that is important, but we want the actual craft, by people who understand and love the product and can take that product that little bit further.

So to go back to this point – this is where we want to be, we want to be at the point we started at but ideally we want to be that destination, so how do we get ourselves climbing that ladder to get toward that destination, so we are pulling ourselves away from the competition, becoming more of a destination for ourselves.

We know where we want to try and get to, we are in quality convenience, we know we want to become much more of a destination, how do we develop the business? We are not daft, we know there is a limit on what we can charge and I am sure there are a number of people who said the product is good, charge the price, people will come to it. That's fine in a perfect world, we are in the northwest of England, business is tough out there. Its tough on the High Street and the competition is as

tough as any where else in the UK. We believe there is a limit on what we can charge so we have to try and present ourselves as a value company. So that not to undermine the quality aspect of it we need to say we are a value company. Our definition of a value company is we take the quality of that product, we take the environment and service in which we present that product and we put a price on it, and that is our value. We are not cheap, we are not expensive, but if we have a unique product which is serviced well and presented in a great environment then we are trying to lift our prices up and above the market place not forgetting the fact that if we overcharge we alienate our customers and they perceive us as being expensive within the market place.

We'll never compromise on quality when we are promoting and this is falling back to the supermarkets. The supermarkets when they give something away they don't compromise on quality. The customer knows if they're being cheated, we are not there to cheat our customers. We want to have this thing of value, but we also want to promote and try to get the variety out there to the customers. And again the standards that are expected within the organisation, let's not fall out with health & safety or environmental health. The customer comes in, they expect a clean environment, we should be able to provide that clean environment and back it up with the service that we've got.

Be as fresh as possible and tell the customers. So whilst we are looking at presenting our business we can't compete with the fantastic photography and marketing that the multiples have got. But one thing we can say is that our bread, our confectionery, our sandwiches are made in the shops, our bread and confectionery is made through the night, our bake off is there and we are adding more theatre within the shops so we can say as fresh as your local baker, supermarkets can never say that. So that is our real point of strength and that's what we've got to try and build on. All the time we are competing against real professional marketing.

Poor quality – not acceptable. We have two golden rules in order to maintain that, so by the time we leave the bakery and get to the shops, how do we maintain the quality that we try and achieve. The first rule is that you accept the product you accept the responsibility for that product. In a nutshell if somebody makes an iced bun, they burn the ice bun and it goes through to confectionery and they finish it, the person who has finished the ice bun is the one who gets it in the neck because they have accepted it, and they accept responsibility for that. Understand that and they will reject it at that point because they are not prepared to accept the responsibility. The second rule is, if you are not prepared to sell it, don't sell it, get it back to the bakery. Get the people to be your quality people within the organisation.

Variety and change often. We'll try and introduce round about 60 new products this year into the business. Between 4 and 5 each month. On top of that we'll be looking at seasonal, Christmas, Easter. Christmas and Easter are fantastic times to send out a good message of freshness and quality and variety from the business. So we want to create the variety and change it often. Out of those 60 products we will bring out, probably only 10 – 15% of those products will stay within the business and we'll know within the first couple of months. So quite often the products in there have a short shelf life and back out again. But again these are the variety of changes that people demand.

Our latest success - GI products has been fantastic. Sandwiches, rolls, healthy impact that will stay as part of us. Other products developed custard, jam in the base, jam and custard, that's got a short shelf life, it will be in and out but it creates that variety for the customers.

Building the brand, and believing in the brand. If you don't believe what you are doing and you don't believe in what you are selling, there's no point in being there. So all the time its about saying be proud of what you are associated with, and if you are not proud of what you are associated with, we've got to try and take those people out and at least work it through.

Communicating with the customer – this is the best part for us. In order to communicate with our customers we've got to train the staff. We train the staff, we've got Investors in People, somebody comes in and audits us. We don't have a human resources department, we have a wages clerk who keeps us legal, but we don't have human resources. Human resources are the senior management team and the other managers and supervisors within the organisation. But it's about working with the staff and making sure they've got the correct tools and the correct attitude to be able to sell these products through to the customers.

Verbal communication is still the best. Our labour costs are too high on the shop side. We are running in excess of 20% for our labour cost, but what that does is give us a fantastic opportunity to be able to recommend products to customers and it's a lot better. You can see a nice photograph, you can see a nice promotional advertisement but a verbal recommendation for anybody is great, and we will try and give them the tools to be able to do that. So it's about samples and product promotion, it's about product awareness, to try and give them this fantastic opportunity to be able to sell those products. If we are promoting a product we are looking for 200/300/400% increase and that's not necessarily price promotion, that can just be about being aware, piling it high, looking it through, sampling the products. All the shops, every time we do any promotion they are all listed and we try to get the best things in there and we try to create 'champions'. We've got EPOS

in all the shops and can monitor sales by day and feed the information back into the shops, so it all does help us communicate with the customers.

On the newsletter we have internal newsletters for all the bakery on a monthly basis and the same for the shop side. We create a quarterly newsletter from Mr Ditty, wherever he is, went across and saw that and said this is working really well. We've been doing it now for a month and I've got to say its working really well. We don't distribute these we'll put them in the bags, we'll talk about, it tells you a little bit more not just about the business, but generally about bakery products, about the freshness, about the National Association. At times like Easter we can talk about the history of the hot cross bun. Things that people are just interested to find out about.

We have a website. We don't sell from that website but we advertise it and if we've got any children's active promotions it'll go onto the website, we'll say go on the website and find out more information from that. That's working quite well for us.

We are trying to introduce multimedia. Every time we open a new shop now we put a flat screen in there with a PowerPoint type presentation that's working on a rolling basis. It'll show the products in there, you'll get product recognition, you've got a message you can get across there and again people see this as a way of trying to move it forward.

Having had a look at the impact of where we are from the past, the tools we've got in our bag to move ourselves forward. We don't necessarily have a business plan but I do believe we have quite a clear vision about where we want to try to move forward to. There is also a great level of confidence within the organisation. Decisions that are made within the business tend to get supported very well by the staff so there's really a high level of confidence. Also any arrogance that was within the business has been kicked out of us fair and square. Don't sit there and do not change because we've always done it that way, we are not afraid of change, if its not working lets get it out and try something else. That works quite well.

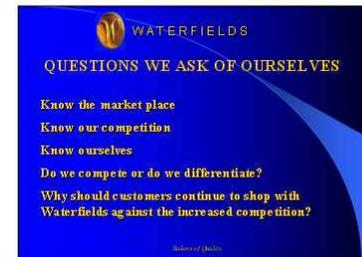
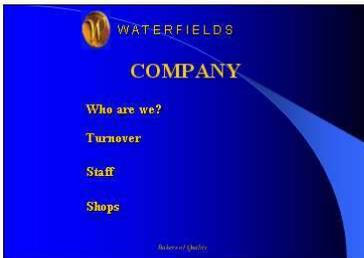
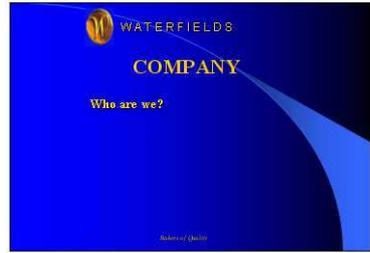
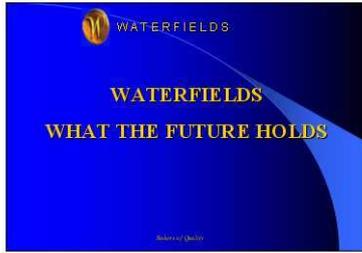
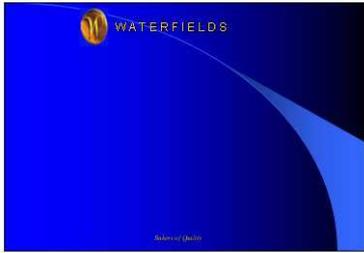
More mistrust in supermarkets, perhaps that's me reading the papers and articles that I want to read. But I would suggest there is certainly a lot more coming on to the TV at the moment to make the whole thing work and I do believe there is more interest in the quality and the craft, that is what we perceive. Whilst we are getting massive feedback about the High Street, it's been struggling, the customers coming off the High Street, we are actually starting to see growth through the business in these difficult times, and we are quite pleased with that. We put a lot of it down to people have just had enough of the supermarkets and if they're driving down the

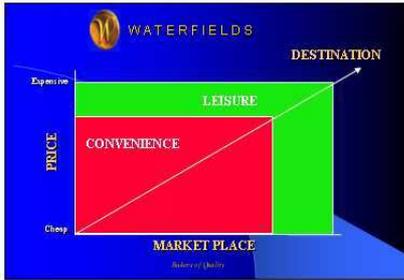
prices either the manufacturer is suffering, the animal may be suffering, the farmers may be suffering, that message is coming out a little bit stronger. So our product prices may be slightly at a premium but what do they get for that sort of premium, do they get the craft, do they get the Association, do they get the building of the community.

Reviewing the business weekly – when we say what is the future, well the future is today. It's probably different from the future in six months time, so what we're doing is continually looking at and discussing the business on a weekly basis. So we may make ten little changes every day, little change move the business forward.

There is a little story I've got to tell with a moral, if I can do that. A friend of mine told me this. He was in a restaurant and was sat there having a meal and there was a lovely, lovely looking redhead about two tables down. All he wanted to do was get over there and chat to her and have a conversation with her, but he just can't pick up the nerve. All of a sudden this lovely lady sneezes; she's got a glass eye. The glass eye flies out and he grabs it with both hands. She comes over and sits down and he passes the eye back and has a great conversation. She picks up the tab for the meal and says do you want to come back to the bar for a few drinks. She then picks up the tab for the drinks and says come back to my place. What a night. The following morning gourmet breakfast, little bit of a rub down and she is just seeing him to the door when he says I've got to sort this out. That was the best date I've ever been on. Tell me do you treat all your men like this. Oh no she said, you just happened to catch my eye!

The moral of the story within that is if you can catch your customer's eye, just think of the heights you can go to.



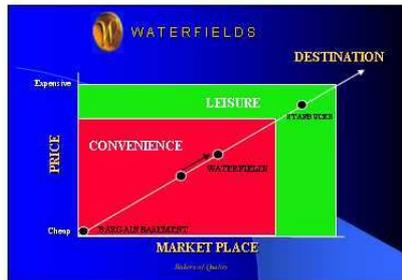


WHERE ARE WE NOW?

Outside the leisure market
 Quality convenience
 Ideally a destination

WHERE ARE WE NOW?

Big enough to compete on price
 Too big to specialise – leisure not a good fit
 Small enough to adapt to the market place
 Enough expertise to respond quickly to ideas
 Skilled bakers (for the moment)



DEVELOPING THE BUSINESS

A limit on what we can charge
 Be a value for money company
quality x service x price = value
 Never compromise on quality when promoting
 Certain standards are just expected

DEVELOPING THE BUSINESS

Be as fresh as possible, tell the customer
 Poor quality is not acceptable (2 golden rules)
 Provide variety and change often

DEVELOPING THE BUSINESS

Build the brand – believe in the brand

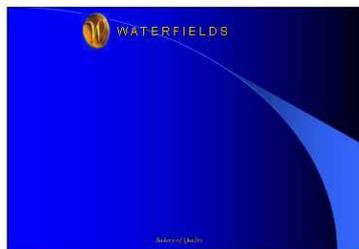
Communicate with customers

- staff training
- verbal communication (is still the best)
- product promotion
- product awareness
- customer newsletter
- website
- multi media



WATERFIELD'S FUTURE

Clear vision
 Confidence
 Don't be afraid of change
 More mistrust in supermarkets
 More interest in quality and craft
 Review the business weekly



Sessional Chairman

Thank you very much John for clearly mapping out the challenges and how you are responding to them, and I recognise the planning in business one week at a time scenario. Are there any questions from the floor for our last speaker?

Question: Andrew Williams, London

You mentioned the demand for healthy products, I was just wondering how a craft bakery retailer like yourself takes advantage of that opportunity?

Answer: It's quite easy for us actually, because we work on short shelf life type products, things like preservatives are not an issue for us. You take a healthy bread, GI, as a good carrier, or a multitude of any sort of carriers that are in there and you just put in good simple fresh ingredients within that product. It's not difficult and all we need to do is be able to communicate that effectively to our customers to say we've always been doing it but we've never been selling it as a healthy product. It is a healthy product. There's definitely a trend there, we've probably been selling perhaps not 50% of it but certainly less and less products now are being sold without butter, so it's just the bread and the carrier. The trend is definitely towards a healthier side. We will embrace that and we've got to be able to tell that to our customers, and there is definitely a more trusting relationship between ourselves, the craft baker we present ourselves as, and the consumer. And all they have to do at the end of the day, my bother's here, he's got his personal guarantee on the back of every bag and it's with a telephone number. If you've got any queries or concerns, ring up and speak directly with one of the owners of the business and they get that personal response and it works well.

Question: Michelle Ray, Merseyside

I may have misheard you, but did you say you were looking to create 60 new products this year?

Answer: Yes, we'll do 60 new products this year.

Michelle Ray – How do you find customers who have been coming to you for years for particular products, presumably you drop some of your regular products when you introduce new ones, otherwise you would have hundreds and hundreds of products, do you not find in the northwest particularly a lot of customers don't like change. They like a certain amount of change but if they've been coming for years for that product, they don't like to find they can't get it any more?

Answer: We produce on a daily basis round about 120/130 products each night which go out through to the shops and then that's complimented with the sandwiches and savouries which are baked off in the shops. We try to give a handle for the sales staff in order to be able to promote both the shop and the products, we are trying to say these are the five new products that are coming out this month and we want you to do that. Others can be simple changes like a new bread or a new cream cake and if the sales of those go up, fine. Once they come back down to a certain level we will take them off. We are not going to introduce 60 new products that will increase the 120 products up to 180 products every year. By the balance it may go up to 130 products by the end of the year, but its keeping that sort of variety. Now in terms of are these our best selling lines, no they are not our best selling lines, and probably very similar to yourself is that our best selling lines are probably very similar to the best selling lines we had ten years ago. We are trying to add additional sales to the customer coming through and its down to this point of being a destination, we want them to walk past the competition because they want something a little bit different rather than a straight forward sausage roll and if I go there I know I may get a little bit extra variety and therefore its taking the extra effort to go into that shop as a destination. Yes we are introducing 60 new lines but it's not necessarily going to count for more than perhaps 5% of the business. It's about creating activity within the business.

Question: Paul Morrow, Bicester

John, what is the one thing you think will make the most difference?

Answer: Supermarkets are still the biggest problem and I think the weak local councils sometimes. If they could transfer the parking charges from the town centre to the supermarket car parks, that would make a massive difference. It's about encouraging people back into the High Streets and I think that would make the biggest difference.