

ECONOMICS 2 – CONSUMERS AND THE FUTURE VISION FOR RETAIL

Edward Garner, Communications Director, Kantar Worldpanel

MEURIG RAYMOND: Welcome back, everyone. I hope you are all well fed and watered and welcome back to the second session of Economics. It is called "Consumers and the Future Vision for Retail" and, again, it is our privilege to welcome Ed Garner and Mr Justin King to this session this afternoon. Neither need any sort of formal introduction from myself – they are well known – but I will first of all ask Mr Ed Garner to speak and then Mr Justin King and then we will take questions thereafter.

It gives me great pleasure to introduce Mr Ed Gardner. He is the Communications Director of Kantar Worldpanel. He has been invited back to our Conference by popular demand. He has been a regular visitor over many, many years. Ed's background is in sales, national accounts and marketing, experience which he gained within Unilever. Ed is a highly regarded commentator in the retail market with almost 40 years experience in the grocery sector. His expertise covers grocery, retail trends and shopping behaviour. Ed, over to you, please.

EDWARD GARNER: Thank you very much, Meurig, for that short obituary there! I came into Birmingham by car yesterday on a major road, an A road, and I suddenly realised the traffic was going really slowly. Why was that? That's because I was stuck behind a bloody tractor – which is quite common, obviously – and I thought that obviously it is a farmer going to the NFU conference. The lengths that people will go to to use red diesel, it really is outrageous!

Let me get straight into it. External pressures: what I really want to look at is the way that the squeeze is going on in the grocery market and it is a squeeze that is increasing – a lot of dramatic movement is going on. It is no longer a very quiet place to operate. So we have got external pressures, particularly in markets.

You could easily look up these numbers for yourself – they are world food prices and cereal prices from the Food and Agricultural Organisation of the United Nations. One of the things we know is that now the era of stability and low prices seems to be over because we have a gentle upward trend going on, which I think most of you will be aware of – that's world population (we heard about that today), changing diet in China and bio fuels; those are the principal reasons. Overlaid on that are spikes which are either crop failures or Goldman Sachs, according to your prejudices.

Closer to home, food and non-alcoholic drink as a proportion of UK household expenditure was about a quarter of the household budget in the early 60s – so you would talk to your parents and grandparents to realise how difficult life was then – and now it is below 10% so actually food is cheap, or you could argue it is too cheap. Then why have we got food banks and people buying food on payday loans? It is because everything else has been going up through the roof, as you are probably painfully aware.

What about the actual squeeze that is taking place when you actually look at the performance of the retailers themselves? I am using the phrase "the squeezed middle" because we have got both ends of the market showing growth. Our latest numbers show me that over the last year we have got consistent growth for Aldi, the German-owned discounter, of over 30%. That is not a misprint – over 30% annual growth. Lidl is 13% growth, which is still pretty phenomenal, just in the shadow of Aldi. That is kind of logical, isn't it, tough time, austerity, "Let's buy in lower priced shops". That doesn't really explain why Waitrose is growing at three times the market average at the same time, and yet we are not all the same – that's why we can go off in two different directions at the same time and put the squeeze on the middle.

Let's just have a few words about the discounters, to flesh that out. I don't really need to explain the growth on that chart, do I? In fact, it's getting faster; it's not slowing up. So Aldi and Lidl growing fast but Aldi in particular going up like a firework there. Aldi

has changed. It is no longer a place that sells cheap stuff and you are ashamed of the shopping basket. It has changed its consumer perception – we've got TV advertising – and it is selling things that are perhaps of demonstrable quality but at a lower price. That's not the same as selling cheap stuff and there we are with like brands only cheaper. Also, if you are doing any welding it is a great place to get your arc welding electrodes! It isn't a place that is all packets and tins and toilet tissue. In fact, not only do they overtrade on produce but they actually are growing faster in fresh and chilled, which is obviously the main food markets, on its way to 40% annual growth there – and you have got a similar bias for Lidl as well.

One of the ways they are growing, as journalists would have us believe that we are flocking to the discounters – in fact, if you go into Google and type in "Aldi" and "flocking" and you get these news items – but actually there are a lot of people that are still going – in this case I am using as a test example Aldi and Asda. They are shopping in both stores and if you observe them they are going in the same place at the same frequency but they are gradually giving more and more of their money to Aldi. Aldi is becoming more of the relevant shop and less of a cherry pick of the bargains. In fact, amongst that select group of people Aldi's share is now over 32%, leaving just 68% for Asda on that paired shopping.

There is also a game changer here because *this* is one of their stores in Kilburn High Road. Classically, Aldi is edge of town, car park, new build – you go to it. This has come to you because this is passing trade. This is a new type of Aldi, no car park, half the normal size, very much like the German model (where there are about 4,000 of these things); stand on any street corner in Germany and you will see an Aldi. It is a quite different queuing system inside, it is built for the lunchtime market. Unfortunately an illegal immigrant seems to have got into the foreground of that picture there (*laughter*) – obviously not a Waitrose shopper anyway.

If we seamlessly go on to talk on to talk about Waitrose: by appointment to the Royal Family; overheard in Waitrose, "Darling, do we need parmesan in both houses?" (*Laughter*) Everybody's sales go up at Christmas but people differentially go to Waitrose at Christmas; its share goes up, "It's Christmas, we're going to Waitrose. We're upping our game". We can see that quite consistently there.

We can cross tab the attitudes of the Waitrose shopper. This isn't results from an old biddy with a clipboard, this is based on 30,000 respondents. What it's saying is that Waitrose's share, amongst people that say "I'm prepared to pay more for organic food" is twice its national share. In other words, it's a very, very strong link, giving me an index of 205, and they are also very strong on seek out fair trade, environmentally friendly, local product whenever I can – local, British, this is what we hear about. Are prices the most important factor? The number is well below 100 so they actually disagree very strongly with the statement. Typically, a Waitrose shopper is very driven by ethical and provenance issues, not price. As I think you are probably aware, it is championing British, it is all about British farming, the heritage of farming, sourcing, provenance – if you buy a fish you learn its Christian name and so on. (*Laughter*)

What of the squeezed middle? If we are both into growing we've got a squeezed middle. The numbers on the right are the numbers we publish nationally – they were published the week before last – and you can see them in the press every four weeks. Over to the left are the figures from the same outlets three years ago. What's happened over those three years, the ones I've been talking about have hoovered up another 3.4 market share points. That may not sound much; that's nearly £4bn in the UK market, so that's a hell of a lot that's got to come from somewhere.

How have the rest survived? Virtually everybody's down: Tesco's down; Asda, you say that's up but actually in reality it's down because they bought the Netto stores from the Danish discounter in the UK so really their share should have gone right up and it hasn't; Morrisons is down, the Co-op is down; Sainsbury's is the only outlet that has actually shown growth over that period in its share. Another way of summarising it is looking at rolling 52 week year on year and it is very clear that Sainsbury's is king of the roost really. I hate to be the next speaker's warm-up act but there are the numbers. (*Laughter*)

One of the things that retailers are trying to do is to seek differentiation. Why should you go to one retailer rather than another? I sought for a picture of the most differentiated idiot I could find and there he is – that is a real cat, apparently. Anyway, we will start with Tesco. Tesco have discovered food, okay? Obviously in the past they were very price driven, it was discount brands and the big price drop and so on and they are actually talking about food heritage. They do have a press campaign behind this which is “Love every mouthful”. Can I just warn you, if you Google that you may get some rather alarming results. (*Laughter*) They are also very strong on price and rather controversially they have a price promise that isn’t only matching on brands it is matching on private label – and I will come back to that because that is a major bone of contention.

They re-launched their Value range as Everyday Value and in year on year growth you can see that growth over to the left of the chart and the blue line was very strong, but it has tailed right away and in fact they are not stupid, they ran into Christmas with a premium range boost – it was a premium Christmas. In fact, sales of their premium range, the Tesco Finest range, was actually running more strongly than the sales of their budget range. One of the reasons for that actually is – and it doesn’t just apply to Tesco – the larger the shopping basket the less it will contain the bargain products and the more it will contain the premium product and the premium product is important because of what else those buyers buy. That is one of the reasons why Tesco will be very keen to keep the Finest range going because if I index the buyers of Finest against the rest you find that they are very strongly into premium markets. Incidentally, the one at the top there, chilled olives, is the best predictor of social class in this country. I love olives. (*Laughter*)

The second largest outlet in this country is Asda, which is part of Wal-Mart, which is the world’s second largest employer after the Chinese Red Army. They are very strong on round pound pricing to the extent that 36% of their sales are in £1, £2, £3 or £4. There is always a slight risk that the price tail wags the product dog, but that is one of the things they do very strongly for their pricing and also, although it is at a much lower level than Aldi, they are also shifting their buyers into fresh and chilled because historically they recognise – they are quite open about this – that they had a poor reputation on fresh and they are doing quite a lot of work to try and improve that, so potentially some opportunities there. Total re-launch of their own label range, As Chosen By You – it is probably ongoing. That is a complete root and branch re-launch.

Moving on to Sainsbury’s, obviously tales of the death of the superstore are a little bit overdone because *that* is their latest store in Penzance. Believe it or not, the coffee shop there has now become a venue because it actually has a stunning view of Mounts Bay, is on the first floor with decking outside if we actually get a summer. So a very absolutely stunning store.

Anyway, Sainsbury’s do this balancing act between value, because they are a mass market operator, and values. In value, believe it or not there is actually bigger sales for Sainsbury’s Basics than Asda Smart Price. It is a shock to us in the business – it may not surprise you – but it is quite important. Also they have had a strong initiative on price with the brand match. In other words, if your shopping would have been cheaper in another supermarket you will there and then at the till get a coupon. I’ve had a couple for one penny and got my friends round to celebrate! (*Laughter*)

What about values? This won’t be new to you. Rather like the Waitrose thing, Sainsbury’s shoppers are actually keen on fair trade, organic, environmentally friendly and local – which again translates to low food miles and British – and once again the numbers aren’t as strong as Waitrose, because don’t forget Waitrose is a niche operator, price is less important than average to the Sainsbury’s shopper. They are much more concerned about provenance and ethics. Just like Tesco, strong sales of the premium own label, Taste the Difference, and slightly lower than average sales of the value range, the Basics range.

Morrisons: fourth largest in the market, very much based on Market Street, that kind of Disney sort of arrangement you go through with the different counters and so on. It is still very important to them because all of the over-indexing markets they have, the

ones I have put dots against, are Market Street markets. So they are very strong on fresh fish, which is actually one of the sort of jewels in their crown, and fresh meat and so on, where they actually have separate serve over counters for these. The problem is that you have probably realised that Morrisons haven't been doing terribly well if you read your press, partly because they have only just got about 100 of these smaller stores – Sainsbury's have 600 and Tesco have got nearly two and a half thousand, so they have some way to go there – and also they have only just started online in the Midlands. As I will show you shortly, online is somewhere you have to be because it is growing very fast.

I don't think the Rochdale Pioneers would be too happy with that, I am afraid, would they? In fact, what actually happened was earlier last year the Co-op was overtaken by the combined share of Aldi and Lidl and if that trend and the upward trend of Waitrose continues, Waitrose will become bigger than the Co-op in a few years time. So one hopes that perhaps that can be turned round, because obviously they have an awful lot of smaller stores in high streets and market towns and so on, which are obviously important for accessibility.

Marks and Spencer: hugely seasonal, as you probably expect – massive spikes there – and still with a very clever promotion for dine in for £10, which is a very aggressive promotion but doesn't de-value the brand so it is actually, in my view, still a very clever promotion.

Anyway, seeking differentiation, one of the ways you can differentiate is what do you do in store? What about the shopping experience? One of the reasons it is important is because everybody is banging on about price. Price is important – don't go away thinking it isn't – but at the end of the day it's becoming less of a differentiator. We've had the Asda price guarantee, which means you go online and it would guarantee it's cheaper; we've got a brand price match in Waitrose, we've got the brand match in Sainsbury's which matches on brands and then, controversially, Tesco Price Promise says it matches on brands and own label and the big argument is what's an equivalent own label?

Tesco are certainly doing something with the store environment. *This* is a store in Watford and obviously if you've got a really big store, an Extra, a 60-foot run of baked beans isn't going to do it, is it? You've actually got to do something like this, which you have got Giraffe, Harris + Hoole, Euphorium – they are not concessions, they are all owned by Tesco – and they have made the store – which is very highly regarded, I have to say – more like a department store than it is like a conventional Tesco.

We have got the famous misting of the produce in Morrisons – you see that *there*. It has even been copied by Tesco; *this* is Tesco in Watford – you can just detect a subtle amount of misting going on there. Let's not mess about with misting, let's go to France and see how they do it there (*laughter*). You can't even see the bloody product. (*Laughter*)

One of the things that is being trialled in terms of store environment is to make the shopping trip more convenient. *This* is Morrisons in Preston, a test store. I don't know if you can tell it from this picture; if I give you another one, that makes it clearer – 360 degree scanning. The assistant doesn't have to face up the product to scan it, they just whistle it through there and hope that the poor bloody customer at the end is coping with the shopping coming through at twice the normal rate. (*Laughter*)

I talked about retail theatre; *that's* what it looks like in chilled and fresh. Unfortunately, frozen food always in store labours under this – it is positively Soviet, it's impossible to find a product, signage is bad – it's very difficult. Some attempts are made to do this with gravity feed and back filling and so on but it still is a problem. Okay, I'm going to come back to a little reminder of that in a minute.

Own label: that's another way you can differentiate. Why is that? Because you can only buy Tesco Finest in Tesco, so it's a differentiator. Heinz baked beans you can buy everywhere. What about the budget own labels? Are we all buying the cheaper stuff? No, they are all down, so so much for austerity – they are all down, all the budget own labels.

This is where the investment has been going, Tesco have re-launched that. That is their Finest range, their premium own label range – in many cases selling at higher prices than national brands. Sainsbury's Taste the Difference: very high performance at Christmas, which was also mentioned by them, and that had a re-launch last year. Both ranges got clobbered in the recession in 2008/9, that is obvious, but since then we have now pretty well double digit growth – 12% in the latest numbers for Tesco and 9% for Sainsbury's, so very strong performance at the premium end of the market.

What about ethics and provenance? What can we say about that? Sainsbury's: all their bananas are fair trade. That happened in 2007; biggest single thing to happen to the Fair Trade Foundation. The result is Sainsbury's by a long way is the biggest fair trade outlet in this country. Similarly with eggs: all their eggs are non-caged. Apparently cages are now called colonies (which is a great use of language) but all Sainsbury's eggs are either free range or barn – and you can see, again, it's a differentiator; it's quite different from the other retailers. Obviously, the same applies to Waitrose but that is a niche player.

Here we have the nub of the argument, and it's fairly central to where we are here actually, which is is it about price or is it about where the food has come from and the provenance? On own label Sainsbury's say you can't match own label, Tesco say you can, and Sainsbury's have been knocked back twice by the ASA but this one will run and run this year, and Sainsbury's have actually gone into press advertising, you may have spotted. We have got the "Same price different values" and let me just read one bit of it: "Take the ham in the rolls above. One's Basics from Sainsbury's. It comes from pork that's only ever sourced in the UK. The other's Everyday Value ham from Tesco. It doesn't". It's pretty hard-hitting stuff actually; quite strong knocking there.

All the Sainsbury's bananas are fair trade. The Tesco ones at the basic level are not. All Sainsbury's eggs, even the cheap ones – this is the Basics range – are from hens that can run around a bit. This one's my favourite, and actually it's worth reading this (if I can get down to the screen here). It actually says "Sainsbury's water" – this is the budget water – "It comes from a spring in Yorkshire filtered through mineral-rich Greenmoor rock" – sorry about that; the cameraman must have had a bit of a problem there. Filtered through Greenmoor rock; the Tesco one is filtered out of a toilet somewhere (*laughter*) – I am paraphrasing the Sainsbury's advertising.

Of course, an extreme example of ethics and provenance would be the organic market and you can see the very hard hit that it took in the recession. That's visually fairly obvious on that chart, and yet you can see, perhaps even optically over to the right, it's coming back. In fact, whisper it not, the organic market is in growth, in increasing growth, but don't suddenly think we're all rushing off to buy organic food and veg – no, this is yogurts and particularly milk that are driving this, and it's main brands. Something like Yeo Valley – it's a big brand; forget the organic part of it, it's a big brand and it slugs it out with everybody in the chiller cabinet. Similarly Rachel's, which mentions it's organic but really hardly mentions it. Green and Black's chocolate is another one; you don't buy it because it's organic, you buy it because it's a luxury chocolate. So that's what's happening in organic – it is up but it isn't up across the board.

"I consider that price is the most important factor when buying a product": well, top of the list are the freezer centres – Farmfoods and Iceland, Aldi (you might expect that) and so on – whereas at the other end of the scale, "I consider that price is the most important factor" not for Waitrose, not for M&S, not for Sainsbury's and, to a degree, not for the Co-op. So in fact in one chart you have the price versus provenance argument in present consumer behaviour. "I try to buy local products whenever I can": yes, Waitrose and M&S, you would expect that. Once again, of the big four Sainsbury's is out in front in terms of its consumers valuing local produce.

What happens when low prices rule the supply chain? The picture is a clue. (*Laughter*) Obviously frozen burgers absolutely clobbered because obviously not just consumer sales stuff was taken off shelves. They have come back. Why is that? Because a lot of people came back at half price to actually push the market back. It doesn't mean the consumers are back in love, because there has been a huge loss of trust that took place

here. Similarly, frozen ready meals: that was really serious because you had a frozen ready meal that actually turned out to be 100% horse, not even partly horse. Do you know why the frozen lasagne was covered in cheese? To mascarpone. *(Laughter)* Over to the right, it looks as though things are getting better but in fact again that is slightly artificial, mainly because Marks and Spencer have come into the frozen food market, frozen ready meal market, and that has actually provided the boost, because frozen ready meals still have a big problem.

You will be glad to hear that in the aftermath of the horsemeat scandal the fresh meats are still okay – that’s fine. It’s probably given a boost to freedom foods; you can see that is on a rising trend there from the RSPCA certification – 52% of households have purchased – and it also indexes strongly for Sainsbury’s and the Co-operative.

A few words about online, and increasingly online on a mobile device. The shopping world is changing because it’s growing over 20% per year. In a certain demographic, young families, over 10% of the entire grocery market is being bought online and coming delivered in little vans or click and collect. That will keep growing. Why is that? Because of the way the demographics works. As people get older, unless they suddenly say “I can’t stand the excitement of online I’m going somewhere else”, what’s going to happen is this: that hump is going to get bigger and that market will certainly carry on going so that 20% will keep running.

There’s a strong bias towards organic online – upper income groups buy organic and they also go online. There’s also a strong bias towards frozen online. Why should that be? I touched on it when I showed you the environment for frozen in store and when you buy online they look the same. In fact, if you go into mysupermarket.co.uk and enter “pizzas” they all come up in a jumble and you get frozen and chilled together.

The other thing that’s quite interesting: if you’ve got primary meats, fresh beef, fresh lamb, fresh pork, they tend to under-index on the internet. You go to the store because the joints are different, you are going to tosh around, pick the size you want, the cut you want. Chicken has now become the ideal supermarket product. The £5 chicken is the same as the £5 chicken as differentiate as a can of beans and you happily click on it online, so fresh poultry is very easy to buy online.

Final words: the future. We’ve got these guys. Ever come across *these*? Single price discounters and other discounters. If I take that group together, how are they doing? They are growing at 15% per annum and the total gross is growing at 2% so that is something else that is changing very rapidly right under your feet. Because they operate at low price points over half the country shop there in a 12-week period – at that penetration, 52% on the right there shows how a big a footprint they have.

In this presentation I have had a lot of large numbers which help to remind you, because this is actually happening now fast. Aldi up 31, Lidl; Waitrose up 9; Tesco Finest up 12; Sainsbury’s Taste the Difference up 9; organic up 7; bargain stores up 15 and the internet up 20 and, in fact – here’s another change for you – see that funny-looking store at the top? That’s in France, it’s an Auchan – that’s a collection point. It’s a bespoke store; it’s not click and collect from store, it’s actually a click and collect place called Drive, you buy online, you turn up, tap in your number, somebody puts it in your boot. Is that a niche thing? No, there’s nearly two and a half thousand, if not more, of those outlets in the country.

In terms of the real debate in the market I touched on, is it price or is it provenance, if you are moving towards provenance it’s what this conference is about – “Where has my food come from? Has it come from Britain or is it mystery food?” I think obviously the message is you would like to know.

Thank you for listening to me. *(Applause)*

MEURIG RAYMOND: Thank you very much, Mr Ed Garner, for quite an entertaining but a very

informative presentation. You've given us a fascinating insight into what is happening in the grocery sector at the present time. I found it quite fascinating – lots and lots of figures.

Justin King CBE, Chief Executive, Sainsbury's

MEURIG RAYMOND: We have time to digest those figures now while I call on Mr Justin King who, again, needs very little introduction. He is the Group Chief Executive of Sainsbury's, well-known to us at the NFU. He's been a big supporter of British farming over many, many years and under his leadership Sainsbury's has played a leading role in supporting farmers, including establishing the industry's leading farmer development groups. Justin, over to you, please.

JUSTIN KING: Good afternoon, everyone. Good afternoon, the graveyard slot after lunch – actually, in truth, the graveyard slot after Ed – wasn't he brilliant? You know the old maxim about keep your friends close and your enemies closer still? Now you know why you sit very close to Ed at events like this! (*Laughter*) Lots of fantastic information there about the market and I hope you did get the chance to take it in.

Thank you, Meurig, for that kind introduction. Many of you will know that I am nearing the end of my time at Sainsbury's. I announced recently I will be leaving in the summer after 10 years – 10 years, I hope, that's viewed in this room as years that Sainsbury's have fundamentally changed, albeit that we've built on a strong history, our approach towards provenance and sourcing and particularly within the UK.

Lots to reflect on that's changed but also at this moment I would like to reflect on something that hasn't changed for the large part of my duration at Sainsbury's and that's the contribution of your President, Peter Kendall. Peter has been a stalwart advocate of your industry for many years – in fact coming up now to his eight years. I think it's fair to say, Peter, you and I have had a pretty positive relationship, although it's not been without disagreements along the way, but he has always been steadfast in his role as President, speaking on your behalf, on behalf of British farming, and he has been very challenging – challenging of supermarkets but also challenging of the industry he represents, you. I think that's been to the benefit of you all.

I should also say that I think Peter has changed the orientation of this industry to be much more world looking. You had Ron Lockwood this morning talking to you with a perspective from New Zealand and I think that we truly have, as an industry, come a long way and realised that we are part of a competitive but also very attractive world for many of you in the room.

I would like to reflect on the first time I ever spoke to Peter, or certainly one of the first times. I phoned him, I couldn't hear him because there was a loud beeping in the background, and that's because he was on the bridge – is that the right expression? – of his combine harvester and it was the satnav beeping at him because he was in the middle of harvest. For me, that typifies Peter: he is a farmer to his fingertips but nevertheless he has been a business leader too and he has engaged with the retail industry in an effective dialogue and he has genuinely changed, I think, the outlook for farming in the UK.

I am soon to move on, as I said. I am handing over to Mike Coupe, who has been with Sainsbury's for nine years and although you won't know until tomorrow who the new President of the NFU is I am confident that Mike will continue the good work between Sainsbury's and I would like to close, before moving on to the body of my speech, by thanking Peter from Sainsbury's and I hope your behalf for a fantastic contribution to the industry. Thank you, Peter. (*Applause*)

It's always dangerous to look back on remarks that you made some time ago. I was last on this stand at, I think, the Millennium Conference in 2007. Peter this morning commented on something that Ed Miliband said a few years ago which he might regret. Well, there are not too many things I said back in 2007 that I regret because much has come to pass. One thing that has changed since then is I have had to change the script on

my speech – I couldn't actually read my speech from seven years ago without my glasses – but much of what I said came to be what passed both in the industry and for Sainsbury's.

You will know that back in 2007 we were on a journey from some very tough times. The financial crisis hadn't hit – I am not talking about that. We had been through a major turnaround. Then in 2008, of course, as the financial crisis hit, most commentators thought that Sainsbury's would suffer in the economic downturn because we are seen as mid-market and I think Ed has talked you well through that dynamic.

Yet here we are today having over the last five or six years out-performed our grocery competition. We now have 24m customers a week up from 16m back in 2007. We believe there is a simple reason for that, and that has been our unrelenting focus on what's right for customers.

Seven years ago our business plan was called "Making Sainsbury's great again" and I told this Conference that our primary aim was to provide customers with great food at fair prices, food that was healthy, safe, fresh and tasty, and I told this room that we would work with you, our farm partners and suppliers, and I believe that we have demonstrated a willingness to do that over the last seven years. That doesn't mean that I consider that work job done. In fact, we are going to continue to need to innovate still faster and further in the years to come.

As we stand here today, the economic recovery feels well underway but it will never be a return to the world we saw pre-2007. Again, I think Ed has painted that picture well. The changes we have seen in the last seven years have been dramatic. We have seen changes in the way the customers shop, where they shop, what their expectations are and, of course, the economic outlook. They have changed the way that we serve our customers and they have changed the way customers shop. As I have said, we believe these have changed forever – there is no going back. We will have to keep understanding those changes if we are to prosper in the future. That's why today we say we are trying to help our customers live well for less. It captures perfectly that value for values idea that Ed talked about.

Back in 2007, of course, we had not witnessed the damage done to trust by horse meat and that clearly demonstrated, as if in truth there was any doubt, the absolute importance of ensuring we stay as close as possible to our supply chains and that we mean what we say. Trust in our sector was badly undermined. Sainsbury's were not implicated. We had no incidence of horsemeat, either as an ingredient or cross-contaminated. For this we have the most extensive quality control programme in the industry and our supply base to thank. We have been using DNA testing for over 10 years and we have done checks from country of origin, audits of suppliers and independent analysis through accredited labs for many years.

We apply those same checks across all of our products, from our Basics range to Taste the Difference. You saw a clear demonstration of that in the 100% commitments that Ed so clearly showed in his graphs – if we make a promise it applied to everything that we sell. But we will never be complacent and we will continue to invest actively in further quality control. I have likened it in the past to knowing that someone on your street has had a break-in. You may think you have the best security systems but it doesn't mean you don't dust down what you do and raise the bar a little further. Why? Because our customers expect nothing less.

So maintaining customer trust is crucial to the success of our business and to the business of farming in the UK. At Sainsbury's we want to ensure that building trusting relationships with our farm suppliers, with you, is part of that.

For us, avoiding things like horsemeat isn't just about quality control, it's about ensuring that the entire supply chain that we work with is built around long-term sustainable relationships that are based on trust and a shared desire to serve customers.

Back in 2007 I said, to some murmurs in the room I have to say, that we will not prop up inefficient businesses. We haven't and we never will. We have, however, helped our farming partners become more efficient and effective and thereby made them more sustainable, environmentally, socially and economically. The outcome of that is that we have been able to source more from UK farmers. Today, 50% more than we did in 2007. In fact, in Sainsbury's history we have never sourced more in the UK than we do now.

Back in 2007 we made a number of promises, promises I believe that we have been true to since. We announced our first agricultural manager. Today we have a whole team with food technologists, developers, nutritionists and other experts backing them up. They are in the room today and should be known to many of you. In 2007 we were mid-process establishing our first development group, the Dairy Development Group. Today we have 2,500 farmers in ten such groups covering pork, lamb, eggs, wheat, produce – all our main agricultural sources. In 2007 we sold 22 different varieties of apples; it seemed like a lot at the time. This year we have achieved 57 and in fact in store this week a new variety, Cheerful Gold, bred in Kent by John Breach – a small but important example of where this approach has borne fruit.

Let me touch briefly, but in some detail on our Dairy Development Group. Meurig, you quite kindly, in introducing me, said they were the leading farmer groups in the country – we are proud of that. It's our longest standing group, established in 2007. Around 320 dairy farmers and it is pretty much the same 320 farmers who started the group seven years ago today. Over that time we have increased our sales of liquid milk by 38% and yet the group, as I have said, has remained largely the same. So we have done that because we have helped our farmers become more efficient, more productive. They have grown their business and that has been supported by the growth in our business.

When we set that group up we initially paid a premium. I think on the stand, Peter, you asked me whether we just pay a premium to the market and I said very clearly we pay a premium for our farmers doing things that our customers valued – environmental and animal welfare, for example. Along the way this premium and the productivity improvements our farmers have gained from sharing in the group has delivered £10m to their bottom line.

More recently we have introduced our Cost of Production model or, more accurately I should say, how the farmers voted for a Cost of Production model. It's a model that means our milk price will reflect the real cost of production and it will go up as well as down, reflecting those costs. Just recently we've segregated our fresh milk supply too. So whilst we're furthest on our journey with dairy it's a journey we will continue with our other groups, we believe giving confidence and stability to our farmers in the future. I believe this is a great example of where the retailer and farmer are truly aligned, working together in a partnership doing a great job for customers.

One thing that has been ever present over the last seven years has been the impact of the weather, albeit brought into sharp relief by recent events, and it has been a big part of the conversation in our development groups. As we stand here today we are supporting those farmers in our groups directly impacted, although it's really rather a small number. But, importantly, our commitment is long term. We will support our groups in the longer term long after the media glare has moved on, but I think we have to recognise as a group that the increasing unpredictability of our weather is going to be part and parcel of the challenge going forward and that's why we're working in our development groups to improve resilience against climatic change.

Let me give you an example of where that has paid dividends. In our wheat development group, where we have 30 Camgrain producers providing milling wheat through Whitworths, to support our commitment to have 100% British wheat in our in-store bakeries in Sainsbury's – nearly 500 bakeries, that is – if you go back to 2012, the wettest year in the primary wheat producing part of the country for 100 years, wheat yield and quality suffered as a result. We believe every other major producer of bread in the UK went overseas for some of their sourcing but we were able to maintain our commitment to be 100% British. That was secured through the buying of all of our farmers recognising

that they had a guaranteed market if they put the extra effort in to continue to produce wheat of the quality that we needed – a big step on in making those businesses resilient.

You heard Ed talk about another constant, customers' focus on quality, on values, and that has happened even during the downturn and it is irrespective of income. There's little data that shows this is the preserve entirely of the wealthy. Our customers have shown that they continue to want that balance, value and values, affordable food ethically produced. Actually, they have increasingly placed emphasis on provenance and ethical issues during that consumer downturn, yet that seems to have been a surprise to many in the retail sector – an expectation that there would be some kind of race to the bottom. Indeed, we see that still in some of the commentary – Ed talked about the idea of flocking to discounters. Nothing could be further from the truth.

So in 2011, I hope you all know, we made our 2020 commitments. Responsible sourcing of quality food has been part of our business DNA since the very first store was opened in 1869. John and Mary Sainsbury had the logo over their first store "Quality perfect, prices lower". That's as true today as it's ever been. When you look at our 2020 commitments you'll see they are true to that idea. They reflect each of our five corporate responsibility values. The one by far the most important, I am sure, in this room is the commitment that underpins sourcing with integrity and that is to double our British sourcing by 2020. I have often said when asked about this in public we don't today – we didn't when we launched many of those commitments and we don't today – know absolutely how we'll get there.

The idea of commitments by 2020 is they are big enough to be stretching but they are far enough away that you shouldn't necessarily know every single step along the way and doubling British sourcing is part of that, but we do know where we'll need to play to achieve it. Firstly, unequivocally, what is British will stay British. Secondly, we'll focus on selling more British in season: examples would be lamb, asparagus – I'll return to those in a minute. Thirdly, we'll convert what could or perhaps should be British to British. An example of that would be the investment our supplier Hain Daniels have just made in East Anglia to produce desserts for us. If you shopped in us at Christmas you'll have seen our fantastic new dairy desserts, all made for the first time in a generation with British dairy.

Fourthly, we will grow things in Britain that have historically been grown largely elsewhere. We have been investing with our suppliers in glasshouses, primarily in Thanet – many of you will know of the facility. Today around 35% of our tomatoes and cucumbers are UK sourced. That's up from 25% four years ago, so a clear direction of travel too. For Sainsbury's it's our Farmer Development Groups, which I have talked about a lot, that are the key vehicles that help us achieve this target.

So what commitments have we made and achieved? All our fresh chicken is 100% British. That's not a surprise or indeed a radical thing to claim today, but that was true when I talked to you seven years ago and had been true for a number of years even then. We have moved, as you heard Peter give recognition to – thank you, Peter – this morning to 100% fresh British pork. That will double our British pork sourcing – it will increase it by 50% and we expect double over the next couple of years. Milks, eggs, sausages – all our own brand products are 100% British. We have even, at the margins, done some interesting things with bringing products back on shore. Take, for example, cranberries, now grown in Kent, and our Taste the Difference British figs are grown in Essex by Abbey View. You would expect me to say this but it is genuinely good news that other retailers are following suit. Competition is the core of keeping us moving forward. You heard Peter talk about differentiation. That lies absolutely at the heart of what we are seeking to achieve, so if others raise their own bar we will raise ours too because it is our intention to stay ahead.

Let me also be clear, doubling British produce does not mean we will make commitments that are against the interests of customers. We will not slavishly make 100% commitments when that's not actually the right decision for customers, either because of quality or value for money. That's where that second commitment, focussing on driving British products when they are in season, comes in. I said I'd return to lamb and

asparagus – both key examples of this at hand. Both are products that our customers wish to buy year round and we have to make sure we have it available to them year-round. British asparagus is about 35% of our total asparagus sales but the season at best is 12 weeks long and those of you in asparagus growing will know it was a much shorter season last year. By providing asparagus year round, primarily from Peru during the off season, we have grown the customer base so every time we start the UK season we start from a higher base. As a result we've increased in the last four years British asparagus by 40%.

Similar examples exist across our store, perhaps most dramatically with strawberries. Last year, through backing British strawberries when in season – which, you will know, was a very significant challenge last summer – we saw strawberries as the number one selling item in our stores 16 weeks in a row, breaking the previous monopoly of chicken and/or bananas which have for many, many years been the two products which feature at the top.

It is clear from everything you have heard today, particularly the speakers that you heard from before lunch, that making the kind of commitments that we have made are not without challenges. Volatile global markets, which of course Jim talked about, increased regulatory burdens, which we have heard Peter and the Minister talk about this morning – planning constraints, which I think came up again in the Q&A – and, of course, the risks of long-term investments in what feels like an even more uncertain world. We believe it's possible if you're prepared to do things properly, as we believe we have, and creatively in partnership with partners then that goal can be achieved.

I said earlier it's not job done and we have to continue to evolve and change our supply chains for the future and key to that must be investment in R&D, I know one of Peter's particular campaigning issues. We believe at Sainsbury's we've put our money where our mouth is. Over the last two years through our agricultural development grants we've invested £2.2m in around 20 projects. I encourage you to look online and see the diverse range of subjects, from frost protection with leeks through to on-farm diagnostics; I was hearing about on-farm faecal diagnostics (try saying that after lunch) in our lamb flocks just yesterday from one of the development team.

So beyond agricultural grants we are working with farmers in our development groups to innovate and part of that has been our concept of farms. I see Teresa Wickham here in the audience who was key in getting the first of these in apples off the ground some years ago. I remember well my first visit to that farm. Our concept orchards have been at the core of us leading the charge of replanting orchards in Kent and, of course, growing to that 57 varieties that I talked about earlier. We remain, and have been for a number of years, the largest retailer of British apples and pears as a result – and that's no small claim when you think about the data that Ed just presented to you which shows our market share at around 17 and our largest competitor at 30, so we are clearly overtrading very significantly.

We are also focussing – playing our part, if you like – in bringing new blood to the industry. Last July we announced what we believe was the first of its kind, an agricultural graduate scheme to encourage the best young agricultural graduates to come work for us at Sainsbury's and it will be our second intake this summer with fantastic applications, as you might expect, and today we have announced we will shortly launch our farming apprenticeship. It will deliver quality training to two groups of around 50 apprenticeships in total and that will start this summer. You may have seen that I am the Joint Chair of the National Centre for Universities and Businesses (NCUB) working on how we integrate the research institutions, universities, industry and, of course, the money that the government have placed at the disposal of the agri-tech strategy. So all, I believe, demonstrating we are playing our part.

So in conclusion, I believe that we have 145 years of history of backing British farming and in particular over the last seven years since I was on this stand we have demonstrated that that backing is real, it's long term and that we are prepared to invest. As I approach my last few months in Sainsbury's – I leave in July – I am confident that I

leave a business more focussed on customers than it's ever been, with stronger supply chain relationships than it's ever been, and those two brought together farmers and retailers focus 100% on doing a great job for customers is the successful formula for the future.

I would like to thank you, genuinely, for the part that you play. I know that outside of this kind of formal forum we get an incredibly warm welcome within our development groups and on farms up and down the country when our teams talk to you about what we're trying to achieve and we generally could not have the point of difference we enjoy were it not for the support that you've given us. So we're backing the future of British farming, the business of British farming; we hope you will continue to back the difference we at Sainsbury's are trying to make. It won't be my job to talk to you in seven years' time, it will be Mike Coupe's, but I am confident when he comes back and talks to you in seven years he'll be able to update on another strong story of growth together. Thank you. *(Applause)*

MEURIG RAYMOND: Thank you, Justin, for that presentation with some big messages within that presentation, and I find it quite interesting how you're moving on from Sainsbury's after 10 years at the same time as Peter is standing down after being in 10 years in office within the National Farmers' Union. You have had a wonderful relationship between you. I have been around at times when there's been some fairly robust discussions, I have to say, but in general terms it's been a very, very good relationship which has been beneficial to all parties. When I speak to dairy farmers within your group or your cereal farmers supplying Camgrain they are totally appreciative of those development groups that have been set up. They do appear to me to be working exceedingly well. You've thrown out the challenge of the 2020 commitments – a big challenge for all of us - where you're going to sort of double UK sourcing by 2020; again, that's going to depend on strong supply chains and good relationships going forward. Thank you for that presentation, Justin.

I do have a fair few questions that have been handed in for Justin and for Ed, so to start the ball rolling could I ask Mr Gwyn Jones and Mr Alec Mercer to go to a microphone, please – these are questions for Ed – and could I also ask Mr Brian Trewin and Mr Nick Bragg to stand by, please? Yes, Alec.

ALEC MERCER: Hi. A question for Ed: do you think the retail sector will continue down the convenience channels (online/smaller local stores) and, if so, what does that mean for us as farmers?

MEURIG RAYMOND: Can we take the second question as well – Gwyn?

GWYN JONES: Thank you, Chairman. Could I also ask Ed how he believes that Tesco, Asda and Morrisons might now begin the fight back against the discounters and (to both speakers) what effect would a radical change such as someone like Amazon coming into the online grocery market have on the existing players?

EDWARD GARNER: If you look at the convenience and online at the moment there are growth trends there, particularly the convenience, if nothing more, because everybody in that game is putting down new stores. It generally seems to be the case that the big multi-trolley dash to the supermarket has seen its day and we do have growth of convenience. The large shopping trips are moving online for the reason I have shown you. There is a difference, they are complementary – it's not that everything is going in that direction; there are certain things that you buy online. I can tell you that cat litter massively overtrades on line – you don't go to select that in your store – but obviously convenience. Within convenience one of the things I haven't mentioned here, because it is difficult to generalise, it's not a coherent class of trade, but the true independent that survived the pressures and have come up actually being rooted in their local communities – because I am actually a judge on retail industry awards – some of the independents are really quite impressive indeed but it is not obviously something you can generalise about.

They are certainly growing but obviously the thing that can't be ignored is that there is an estate of big stores out there, hence the development I showed you of Tesco saying

"We've got this space, we've got to do something with it", but at the moment the trends are there and they are very clearly delineated.

With regard to the fight back, one of the things that one of the more Puckish members of the City – I think David McCarthy – has said is that Tesco ought to go for a last man standing approach: because of their size they just ought to drop the price floor and hammer everybody else. Probably a brave move in the face of Asda/Wal-Mart so I wouldn't recommend it, plus the fact the Stock Exchange would run for cover from the whole sector, and actually selling cheap stuff is not in the interests of anybody in the industry.

Obviously there are a couple of things that Tesco are doing: stores I have already shown you. The other thing which you cannot ignore, from Tesco, and you can't ignore 30% of the market, is digital because they're very firmly committed to online and in fact the success of the Hudl, which has been a hugely successful mobile device oh, and by the way, it's got a Tesco portal when you get it. So they are very integrated on digital, which is a move to the future. So that's likely to happen.

Morrisons: the plans are in place; they have just got to execute them. The main problem they have faced is the sheer fact that they have for some reason elected so far not to be in the two fastest growing sectors of the grocery market, so it's a numbers game that's caused the Morrisons problem.

MEURIG RAYMOND: Justin, would you like to comment?

JUSTIN KING: I think all I add is that the market will return to growth – population growth is central to all economic forecasts in the UK – but the lion's share of that growth at least will come from the new channels that Ed and I have both touched on – convenience, online, discounters and so on. But I think it is important to keep it in perspective. Online is not a new phenomenon in the UK – Tesco launched their business 15 years ago, ours in Sainsbury's about 12 years ago and with many billions of pounds of investment in all the major supermarkets, including now Morrisons are in this marketplace, we already, if you like have the Amazon of food online, it's called Ocado, in this marketplace, and yet after all those billions of investment 96p in every pound is still spent by real customers in real shops. So whilst I am not dismissive of the change and certainly almost all if not all of the growth will come from new channels the lion's share of business today is still done by customers in supermarkets, and of course just because they've broken down their weekly grocery shop doesn't mean they don't consider their local grocer the most convenient place to do their top-up shop. Many do and many supermarkets are as much a convenience store to customers as they are a destination for a weekly grocery shop.

Even if you take the most pessimistic view of some, if you take a 10-year view, north of 80% of food shopping will still be being done, in my view, in grocery supermarkets that don't look unfamiliar to the people in this room today from walking into a 50/60,000 square foot Sainsbury's today.

MEURIG RAYMOND: Do you want to comment on that?

EDWARD GARNER: Never say never. I mean, at the moment certain fresh is a problem. I have actually at one point tried to buy some ground coffee on Amazon and I had the selection of about 60 to go for, all of them with a delivery charge, so so far not yet. Obviously, you can't dismiss it. They're remarkably strong operators and they are a game changer – they are breaking the mould so anything could happen there in the future.

MEURIG RAYMOND: Thank you. I'm going to try and pair the questions so can I first ask for Mr Brian Trewin and then Mr Paul Brown and then could I ask Mr Nick Bragg and Rob Harrison to stand by, please? Brian first.

BRIAN TREWIN: Good afternoon. My question is to Justin. Following the recent wet weather and the implications it will have on food production in 2014 and beyond, what assurances can you give that you will not source food from overseas without first looking for new UK suppliers? Thank you.

MEURIG RAYMOND: Thank you, and is Mr Paul Brown available?

PAUL BROWN: Yes. Thank you, Mr Chairman. Two points. To Ed Garner: Ed, what are your predictions for the discounters on sourcing British as they grow in size and competition for produce intensifies? To Justin King: we'll invest and produce it but only if you're prepared to pay a fair price that leaves a profit for us, the producers, as well as yourselves.

MEURIG RAYMOND: Thank you, Paul. Justin, do you want to pick those up first?

JUSTIN KING: Yes. I'm not sure how much I can add on the point about the weather and sourcing from overseas. I think the example I quoted from Camgrain is a great example of the lengths that we will go to, but ultimately we won't work against the interests of our customers. You know, if the product isn't there to be bought, it isn't of the right quality or at an appropriate price, then you will see some products, of course, shift to overseas sourcing. I think there were, for example, on strawberries – I told you the strawberry story – I think there were only about two or three weeks last year that the industry, ourselves included, was absolutely 100% British. I think we were still balancing out of Holland for most of last summer because of the weather. So we start with the consumer and work back.

What I can assure you is that for those farmers that are in our development groups we will go the extra mile to give them the confidence, as we did with our wheat producers, to get that product to us at the right quality and we will take responsibility for selling it to our customers. It's a bit like making a 100% commitment: you shouldn't make a commitment that ultimately has the potential to work against the interests of consumers. That's not in the long-term interests of the industry at large.

EDWARD GARNER: With regards to the sourcing, there's two aspects. One is if the Britishness of the product is a point of difference – differentiator is one of the things I have been talking about – then they may well go for it because it is one of the product stories rather than just "Hey, it's cheap". An example of that is Lidl, which re-launched their fresh meat range and I think nearly all of that is British sourced other than preserved and continental meats.

With regard to the supply, don't forget Aldi is actually a very large, international, ruthlessly efficient company and if it actually produces lower cost to source from the UK then they will but if there isn't a consumer argument they will source any way they want to and they drive their costs down by two means: one by not offering choice and secondly by hardly ever promoting so they have a very predictable sales line and low inventory and huge volumes because of the business in the US and Germany. So if the UK was cheaper they'd go with that but if there's actually a consumer story, as in the example of Lidl, then there's that argument as well.

MEURIG RAYMOND: Thank you. Nick Bragg and Rob Harrison and could I ask Simon Barton and Sarah Dawson to stand by, please? Nick Bragg.

NICK BRAGG: Good afternoon and thank you. I am Nick Bragg from Somerset. A question directed to Justin King: we want to give consumers choice through clear labelling and by producing the products they demand – we are proud of our products and want to tell the story from farm to fork. I try to do this with regular school visits to our farm and also hosting open farm Sundays, but do consumers really want this or when it comes down to filling the trolleys do they want shelves of homogenised and uniform cheap produce?

MEURIG RAYMOND: Thank you, Nick. Rob Harrison, please.

ROB HARRISON: Justin, you have shown great commitment to British produce over the years. When are you going to prove your commitment by putting Red Tractor logo back on pack in store? *(Applause)*

JUSTIN KING: I will come to that in a second. The point about clear labelling, I couldn't agree

more. I think what we aspire to in everything that we sell is to provide our customers with informed choice. If we take it outside of, for example, the country of origin debate, we were the first and still the most comprehensive labellers of food for nutritional values – so-called multiple traffic light labels on front of pack; we did that back in 2004 and the law is now changing and all that is now being repackaged by the end of this year to a standard format which all UK retailers will have to follow, and that's what informed choice is all about.

I think that everything that you've seen today, whether it be what I said or indeed some of the charts that Ed presented, should fill you with some optimism. I think we have seen what will be viewed as the historical low in our relationship as a society with food. I think broadly over time we will spend more on food as a proportion of the household budget and one of the reasons for that is that we are more aware than any generation about the provenance of food, the consequences of cheap but not quality-driven production and to different people provenance means different things but more people are concerned about these issues than ever before.

You heard Peter this morning talk about 79% of people said British is an important part of their decision. In fact, the research that we've done as part of the public debate we're having with Tesco about their price match promise is that actually not just on British but on animal husbandry, on fair trade, ethical sourcing more widely, consumers refuse to accept that you can compare the price of a product when it is fundamentally different in its provenance – it's about eight out of 10 consumers. That's true regardless of demographic; it is a completely misrepresented idea that if you have less money in your pocket you are less concerned about the world around you – nothing could be further from the truth.

That brings us to Red Tractor and I point you to Ed's point about differentiation. It doesn't differentiate us. Why would we, Sainsbury's, whose ambition is to sell produce that is truly different, better and special, wish to lend, if you like, credibility to a label that frankly pretty much anybody can stick on the front of their packaging. There is a wider issue for us in this industry which is not meant as a direct sideswipe but may be seen by some in the room to get people to sign up to commitments to voluntary agreements and broadly speaking, in our view, these kind of industry-wide initiatives are the refuge of scoundrels. The people that are most interested in signing up to industry-wide initiatives are those who wish to wrap themselves in the clothes but not cover the hard yards to truly have differentiated and special product. In the end, the Red Tractor does not tell our customers anything special about the product that they can buy in Sainsbury's that they don't already get because the name Sainsbury's is on the packaging and there's a Union Flag on it if it's British. That's why we don't use the label; it doesn't add any value for our customers in understanding that our product is truly different and special.

MEURIG RAYMOND: Can I just push back there, Justin, because I think there is a frustration within the farming industry. We are extremely proud of Red Tractor and what it has delivered in the last number of years and it has moved on an awful lot in the sort of five or six years that I've been involved, but it's the frustration where farmers have to conform to Red Tractor farm assurance and people have to jump through those hoops and then not being recognised with a label. That is where the farming industry – that's what they do find extremely frustrating.

JUSTIN KING: We accept the standards necessary to pass Red Tractor farm assurance as a baseline to our standards, so we don't expect you for the baseline entry to do anything instead of but we do expect something as well as. In the end, whilst it is to be applauded because your ambition must be to raise the tide – a rising tide does indeed raise all boats. Our ambition is to operate at the high tide mark all of the time and in the end why would we want, not just on Red Tractor but more widely on certification and labelling schemes, because we haven't sort of picked on Red Tractor we are very, very low users of certification or labelling schemes that we believe have a low price of entry.

We like fair trade because the price of entry is really high and a lot of people choose not to pay that price. You saw the slide that Ed presented. We have 100% commitment on bananas, made in 2007, and none of our major competitors have matched that

commitment because they're not prepared to put their money where their mouth is on the provenance of the sourcing of bananas – and I can point to many other products. So we are very happy where the bar's high and others therefore have to cover the hard yards to join us.

EDWARD GARNER: I would just make one point to add to that. It's that if you go to Waitrose Hardly if at all will you find RSPCA Freedom Food labelling – if it is, it is at a very low level. It's the same argument.

JUSTIN KING: Of course, I think Waitrose are right in that because we think RSPCA Freedom Food is fantastic.

EDWARD GARNER: Ah well, there you are.

JUSTIN KING: That's the nature of competition.

MEURIG RAYMOND: Can I ask Sarah Dawson, please, and Simon Barton for your questions?

SIMON BARTON: I'm a Freedom Food producer for Sainsbury's and I'm proud to do that and the Chicken Development Group does work – it does what it says on the tin. My question to the Panel is: the supermarkets are backing the British message, a lot of poultry still comes in from abroad, which we assume goes to the catering market. How do the Panel think that the NFU can persuade the catering market to change and buy British?

EDWARD GARNER: I will just say I will have to just that one straight away---

MEURIG RAYMOND: Can we take Sarah's question as well?

SARAH DAWSON: It takes time to develop and build provenance attributes. Obviously, we are all very familiar with that in the room. As a farmer, what I am interested to know from the Panel is what should I be thinking about now to get me ready for what consumers or my retail customers will demand from me in the future?

MEURIG RAYMOND: Thank you – that's forward thinking. Can I ask Rob Bebbington and Edward Chapman to come forward to the microphone? They have got questions on food security.

EDWARD GARNER: What do you farm, Sarah?

MEURIG RAYMOND: Cabbage, Brussels sprouts and broccoli.

EDWARD GARNER: So you are vegetables?

SARAH DAWSON: *(Inaudible – off microphone)*

JUSTIN KING: I've got to read up on the three cop thing. I've kind of felt it in the room today. I'll have a go on behalf of the NFU. I think the point is a very well-made point; in fact it's one which the grocery supermarkets in general have a huge frustration about because we're seen as first port of call for changes on a whole dimension of things and actually often we're held back in our ability to change things by the fact that many calories that are consumed are not consumed from food bought in supermarkets.

I'll take it outside of the controversy of this room to try and make the point but I see David Gregory, sitting at the front here, who I used to work with at Marks and Spencer many years ago. We talked a lot about salt and removing salt from the diet and grocery supermarkets are at the forefront of that, but we can't do that unless we lockstep with the catering industry. We need to de-sensitise our palates as a population en masse, or rather re-sensitise them, to salt so that we stop putting salt in to get flavour. It's actually counter-productive if we get too far ahead, as we did in Sainsbury's. We took too much salt out of our bread a number of years ago and the only impact was the customer stopped buying the bread with little salt in and found another bread more to their taste with salt in.

I use the salt example because hopefully that's not controversial in this room, but I think on a lot of things that we're talking about now we are absolutely held back by the rest of the food supply chain. If you take horsemeat as an example people will often say, you know, who were the retailers most affected but actually the real question is where were you most likely to have unknowingly consumed horsemeat? It wasn't on a product bought from a major grocery retailer in this country and I think the NFU should be vocal about that.

MEURIG RAYMOND: I think we have been fairly vocal, yes.

JUSTIN KING: In terms of back to your point about what do I tell you about the future, I mean of course I am going to say that's part and parcel of being part of a farmer within one of our development groups. We are less advanced in the area that you farm, in the product areas that you farm, than we are in meat and dairy where we've been leading the charge, but it'll be an extension of the same thought process which is that we want through reaching through our development groups, to have what you might call soft vertical integration, a real sharing of our knowledge that we are getting from customers about the direction of travel and giving you confidence that if you invest in your business in that direction of travel that we, if you like, share the commitment and we share the risk because we're confident that that's the right investment to make because of where we believe customers would be.

I don't hold with the idea that supermarkets just look at data, read where customers are now and react. The skill in running a supermarket successfully is to read where customers will be in a year or two or three or five years' time and placing your bets on that journey. I think Ed was very complimentary about our performance in recent years; what has underpinned that more than anything is our willingness to place those bets, if you like, to go to 100% fair trade bananas – the banking crisis was happening when we went there and people said "Why on earth would you want to pay \$4m a year more for the bananas that you could buy \$4m cheaper and, by the way, you're not going to charge the consumer an extra penny?" because we don't. Fair trade comes free if you buy a banana in Sainsbury's. But that's a big bet which has paid off time and time again because if you want to buy fair trade bananas and that really matters to you, you come to Sainsbury's to buy them. We have to do that with your purple sprouting broccoli and curly kale too.

EDWARD GARNER: The argument there is to actually move away from operating in a commodity. There are two ways of doing that: varieties like Chardonnay carrots, new varieties of tomatoes, which have burgeoned since I was a child, strawberries and in the case of other fruit you can actually brand, so Pink Lady and who would have thought you could brand potatoes but Rooster and Bartlett seem to have done that quite successfully. So actually that's marketing – new product development and branding, probably the thing of the future to take you out of the commodity markets.

MEURIG RAYMOND: On Simon's point about convenience food and the convenience processes sort of supporting British farming, I can assure you, Simon, that within the NFU our team – Phil Hudson, Debbie Cawood – are talking to these people all the time, they're trying to promote British. That's one of our roles on behalf of the membership and I see David Gregory and David Clarke of Assured Food Standards in the front row here again doing a similar promotional effort on our behalf. It's a fairly long slog but I can assure, Simon, we'll cue up that argument.

The clock is ticking but I'll take two more questions on food security – Rob Bebbington and Edward Chapman – and I apologise for the other people that have handed in questions but we do have breakout sessions starting in 15 minutes, I believe. If I could have Rob Bebbington and Edward Chapman, please. Edward.

EDWARD CHAPMAN: Good afternoon, Council, Mr King and Mr Garner. Is it still Sainsbury's policy that food security is Sainsbury's ability to buy food from anywhere in the world as you told us in a previous conference? I am not bitter for long but it was seven years ago, as you reminded us today, and when you told us that seven years ago it was a real kick in the teeth for producers of British products when your supermarket after Christmas and

particularly in the Spring are using just solely or as much as you can New Zealand lamb when our own lamb and products are just floundering. I as a farmer spend most of my income locally within my local community or within 60 miles. I am not very pleased that firms like you can import from all over the world and send that money away which has come from British shoppers basically. Thank you.

MEURIG RAYMOND: Thank you, Edward. Rob Bebbington, please.

ROB BEBBINGTON: Question for Justin: we saw Ed's slide earlier on today showing how food cost to the housewife is at its lowest that it's been for a very long time. I just wonder – you've slightly answered this before – how will you be able to pass on this cost to the consumer? I haven't ordered my Lamborghini like Jim was suggesting this morning as yet; I don't think we're going to quite be in that league yet. Will Sainsbury's become the squeezed middle?

MEURIG RAYMOND: Thank you, Rob.

JUSTIN KING: Gosh, where do I start on lamb? You see, I don't think what I said seven years ago was a kick in the teeth; I think what I said seven years ago was intended to be a wakeup call, which is, particularly on lamb, a 100% commitment on lamb, is against consumers. If any industry tries to baulk what consumers are looking for then in the long run you will do less well. We sell more lamb, British lamb, today as a direct result of our policy of not making a 100% commitment on lamb. We focus on seasonality. There's a farmer in the room who shall remain nameless who tried very hard to kill me six years ago when I went to his farm to see what he was doing to grow lamb for us through the winter months. That was, for me, a shock. It was a lot of effort to produce a product which was largely unaffordable to most of our customers.

We do, however, offer choice so our counters have British lamb on it 52 weeks of the year because for some customers British is the only choice they will make 52 weeks of the year but for the most, for a good part of the year, the most affordable, freshest, best-tasting lamb is not British. You shouldn't be concerned about that; you should focus on the eight months of the year where the most affordable, freshest, best-tasting, most in the interests of the animals that you care for and rear, is British and focus on driving volume during that time. That's why we sell 40% more British lamb today than we did seven years ago. I'm not going to apologise for that on lamb but nor am I more widely. Peter published a slide this morning. It showed, I think, 60-odd% of food in the UK – Peter talked about August. I happen to think that's a bit of a spurious data point because the real question is if you look through the four approaches that I talked about our strategy, how far could you get if everything was available today that's foreseeable, probably somewhere with a seven in front but probably not somewhere with an eight in front.

That then puts you to a question: do you think it's right to talk to that hard-pressed housewife (who we will come to in a second) and say "Actually, there's certain things you can't buy because they're only affordable if they're sourced abroad". That would be ridiculous and it's certainly not going to happen in our lifetime. Let's focus on what we're great at doing, do it better, drive it when it's at its best and that's how we'll grow our businesses.

Ultimately, that's the answer to the second question. Pricing doesn't start with what you can get away with. Pricing doesn't start with what it costs you to produce something. Pricing starts with how well you are satisfying what consumers want. If you satisfy consumers in a very targeted way with something that's important to them which they can't get anywhere else, that will reflect itself in pricing. Our own brand product is more expensive than Tesco's own brand product because it's better. It doesn't matter whether I believe that, it's true because our customers also believe that to be true too. That's why we're fighting on the price comparison versus Tesco because we don't think it's a fair comparison when the product is better and neither do our customers. The answer will always therefore be the better targeted your product the more it reflects what consumers demand, the better pricing we'll get for it in the long run, but you will achieve nothing in

the long term by starting from the point view that we shouldn't do this or we shouldn't allow that to happen or we should stop for customers.

By the way, my mum has never bought a French apple but she's also never bought British lamb between Christmas and Easter because that's how she was brought up. Actually, that broadly means we don't eat lamb in our household between Christmas and Easter because that's how I was brought up.

MEURIG RAYMOND: I know where there's 2,000 well-fleshed hoggarts for sale and they will taste good!

JUSTIN KING: Again, hopefully one of the things I have said today is we genuinely put our money where our mouth is. I see Jim Dobson down in the audience. I have the brass plaque on his wonderful facility – I am going to say Lampeter because I can't actually pronounce the village that it's in – will kill 1.5 million lamb there? Something like that. We have entered into a very long multi-year commitment to give Jim the confidence, Dunbia the confidence, to make that investment and, you know, we yield to no-one in the support that we're giving the industry that you in this room represent. I genuinely believe that.

MEURIG RAYMOND: Ed, do you want to comment?

EDWARD GARNER: No, that's not for me. I'm supposed to observe impartially – pure market research, you see.

MEURIG RAYMOND: Thank you. On behalf of all of us, can I thank Justin and Ed for their presentations, which have been most illuminating. (*Applause*) Again, the messages from this session to me has been food security and the challenges that we face and how we will need strong, well-respected supply chains going forward. Can I thank you, Justin, for what you have delivered along that sort of score over the last number of years? Thank you, Ed, for lots and lots of interesting facts, as always. You are always a delight to come to our Conference, and can I wish you, Justin, all the very best for the future when you move on from Sainsbury's. I have no idea, they talk Formula 1, I have no idea, but whatever it is can I wish you well? Thank you both.

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