

Supermarkets Supply-chain

Relationship

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Customers are not homogenous and at Tesco we believe we need to satisfy each customer better than our competitors.

To do that we need information about who shops with us.

Remember - the consumer is king so we all have to learn to follow customer trends.

New trends include -

Discerning customers buying more premium sliced bread and also Italian, Indian and speciality breads.

Demand for convenience/ pre-prepared meals has boosted growth in speciality breads. This is no longer exclusively for up-market customers. It is an opportunity for us all as

demand grows among price sensitive customers. Once a week shoppers do not want short code life products - e.g. In Store bakery products with one day's code life has been hit. Consumers value convenience - they want to shop 24/7 and they want goods to be available. They want a good choice of bread to suit their different needs.

They expect bread, in particular, to be available. Bread is fast moving, emergency buy - we sell 1 1.5 million loaves a day.

We have to be innovative and fleet o foot

We face three problems -

High cost of stocking and replenishing shelves - £100M a year

lack of availability - one delivery a day, and often none on Sundays Poor packaging, which contributes to high wastage - short code life - in the first 29 weeks of the financial year, waste has accounted for -

Sliced bread £4.2M

Morning goods £5M

In Store bakery £8.6M

We have to be a team - Tesco and suppliers to deliver great baking products for customers. We have to improve the supply chain by -

Cutting the cost of replenishment

Merchandisable units (Mu's) cut costs, increased availability for consumers.

Mu's for sugar and water.

Mu's for bananas, butter, coffee, tea, Coke, beer, various Nestle products now proposed. Bread could also benefit. Suppliers who move to Mu's will share the benefit from us.

Improving Availability

We need to consult with you to ensure that we have sufficient stocks of bread, and range of bread to meet consumer demand.

In particular we want to improve -

Code life

Weekend deliveries

The timing of daily deliveries to avoid congestion at stores

This would benefit consumers and suppliers - who will see their fleet properly used.

It is also more environmentally friendly as fleet is used more efficiently.

Better packaging is one way to improve shelf life and thereby availability

Improved packaging preferable to increasing preservatives in products.

Thanks to new packaging, Naan and Pitta bread's shelf life has increased from 4 to 9 days

As a result there has been -

- A 4% reduction in waste

- A 3% increase in customer availability

We want to build closer links in the supply chain

Long term campaign for closer supply chain relationship - treat people how you like to be treated

Tesco is a keen supporter of the Suppliers Code - trained all staff on its implementation

Encouraging customer understanding and sharing learning -

- Producer Clubs

- IGD Food Chain Centre, Tesco attachments

Supporting businesses - by working with us businesses have benefited.

Question: David Marsh, Brackley The experience in Holland is that MU's are quite common there and there is a cross supplier and retailer agreement to use a stand format of MU and that is a case where supermarkets not only consult their suppliers but they also consult their competitors and the supplier then has the benefit of a common standard. Is Tesco going down this route as well, do you talk to Sainsburys and other groups in order to establish a UK standard?

Answer:- I think it's a really good issue for me to take away. Certainly when we started with merchandise in all units we encountered quite a bit of resistance to merchandise so what we did was work with individual suppliers who wanted to go ahead and its I don't know whether that either being assisted by scale in the Netherlands that they've been able to get the thing through. We have a British Retail Consortium and what tends to happen is we bring technical standards in there and I think that a good challenge for them to look at merchandisable units to see whether you can get some kind of standard.

Can I ask a question - does that then mean that the merchandisable units are a bit like milk bottles, that they sort of go back anywhere ?

David Marsh - Well I believe that would be down to your supply chain situation.

I was wondering whether that happened in Holland ?

David Marsh - Yes it does, in terms of baskets.

Well the answer is I think that obviously looks like a possible thing to look at going forward although at the moment we are working with individual suppliers on merchandisable units.

Question:- John White, London Could I ask about the Code of Practice and we will be hearing on that fairly shortly. The supply side of the chain has made its position pretty clear both privately and publically in relation to its relationship with the supermarkets, yet the supermarkets, in my impression, still seem to be in denial that there's a problem. I'm just wondering if you think the twain will ever meet without some form of regulator or arbitrator that's been

discussed fairly freely.

Answer:- Well I think its right that the OFT are reviewing it and obviously the points that were made in the context of the Safeway thing are being fed into that process and we would expect to have further talks with the OFT this autumn. When we talked to them earlier in the year we did have some sense of frustration, we have tried to encourage suppliers who think there's an issue to come to us and explain what the problem is, or indeed to go to their trade association and the number of complaints under the Code have been small and we find it quite difficult to decide whether that's because of frustration with the way we are dealing with it or a concern that the Code only applies to the big four retailers and only to the first point of sale which is obviously all that could be done under the competition rules under which the Code was made and I would be interested to see what the OFT conclude on that. My feeling is that there are two different issues, there is the Code and there is also the competitive nature of the industry and the frustrations about the two, about the competitiveness gets linked in with the Code and the question is what is the Code setting out to do, its trying to ensure there are contracts, ensure there are not last minute payments being imposed without people knowing about them, points about transparency, points about consumer complaints, I mean all of those are areas of concern which the Code then sought to deal with. I think we have to wait for the OFT review to see whether those areas of concerns

are the ones that are causing frustration or whether it is more about the competitive nature of the industry which may make it difficult for the Code to do anything and whether the regulator can do any better I have my doubts. We have regulators in the 70's for food and what then tends to happen is instead of the consumer and entrepreneur prevailing its political stuff about prices and I would worry about that because I'm not sure you get such good economic outcomes or so much innovation on such a good deal.

Question: Andy Pollard, East Yorkshire

You say we have to learn to follow to the customer trends, how much do you feel that the power of the multiples can influence the customer trends in the future ?

Answer:- I think you can influence them a bit by producing good products but there are thousands of new products produced certainly every year, probably every week and the consumers like what the consumer likes. Obviously the big brands do a lot of advertising in the hope of making the consumer go in a certain direction but I think especially in food there is a certain canniness, if things are good for the consumer, they taste good, are convenient, then consumers catch on to them. I'm not of the school that thinks that you can force change down the consumer, I'm more of trying to find out what the consumers want, try and the work to produce products which are hitting the right buttons some of which I've talked about, convenience, the discerning

customer, actually I didn't mention sort of food assurance, safety and trust which I think are important after the number of food scares we have had, BSE and GM and all the rest of it. That has made people want to be very sure that the food they eat is safe so that would be another one., and if you can think about those sort of points and produce products that meet those concerns I think you are more likely to have a successful business.

Question: Paul Morrow, Bicester Do your consumer panels and the various market research they do indicate any lessening of concern about GMO's or modern biotechnology ?

Answer: Two points, first of all you get it mentioned when there's been a particular food scare or lots of stuff in the papers and a normal panel, we have panels in the stores, 2 or 3 every day across the Group, many panels won't be mentioned at all. But if you talk to the group of customers, we do obviously specific studies in particular of groups of customers who tend to be interested in that type of thing, but they continue to be concerned, so in spite of the fact that GM's isn't in the papers or on the front of the Mail every day, you haven't got to situation where those 20/30% of people who are worried about these sort of things are less worried, they continue to be concerned so you've got quite similar situation to the situation that we found ourselves in 3 or years ago when we decided not to put GM into Tesco products. What you haven't got though the number of customer calls

and things on that issue because to some extent they tend to lag the TV programmes and newspapers.

Question: Paul Heygate, Northampton

You made particular reference that you are a farmer's daughter, are you satisfied being a farmer's daughter with the return that the farmer is getting for his product when it is sold to the stores ?

Answer:- I think the sad answer is that my father went out of business in the 60's so I was brought up as a farmer's daughter but am no longer a farmer's daughter, he changed my career to do something different, and it was very tough then and obviously my sympathies are with the farming community and the toughness that they face. I think the one point I would make is that a huge lot seems to depend on the relationship between the Euro and the Pound and over the last year there's obviously been an improvement in that which has actually helped farmers a bit in times of the really dreadful situation they were facing and it is facts like that, the CAP and the support prices and the world market for commodities and for food which actually have much more impact on where farmers are than we do as the shops who are selling on to the consumers.