

"First for Food "

Sir Peter Davis

The Sainsbury's group serves customers in Europe through its UK supermarkets and in the New England states of Massachusetts through its Shaws Supermarket chain.

It also facilitates its own bank from within its UK supermarkets providing customers with a very efficient and competitive banking service.

Collectively sales for the year ending 2002 totalled £18.2 billion pounds and profits before tax achieved £627 million pounds.

As a major food retailer within the service industry Sainsbury's employs 173,800 colleagues.

Sainsbury's supermarkets throughout the U.K. achieved sales of £14,860 billion pounds.

Its store estate has grown to 501 supermarkets located across England, Scotland, Wales and Northern Ireland.

145,000 store colleagues serve over 500 million customers throughout the year.

On average each store offers customers a choice from 20,000 product lines.

A developing on-line service provides customers with full product range choice delivered direct to their own front door.

Each store promotes a wide bakery offer which includes products from its own in-store bakery which we feel makes a significant point of difference.

Destination

Our . marketing surveys highlight that some food products are significantly more important to customers than others and influence their decision in deciding which store or retailer to shop with. We rate these departments in priority order as customer destination. Bakery is rated second superseded only by produce. Destination departments have a holistic impact on total store sales.

Total bakery sales 2002/03 for the bought in range of products and those produced and sold from our in-store bakeries exceeded £500 million.

The percentage split for total bakery sales between the bought in range and I.S.B. is approximately 60%- 40%.

In response to customer surveys we have amalgamated our two bakery offers and created a total bakery department, siting the displays in one area of the store to make shopping much easier. We endeavour to avoid duplication between bought in and I.S.B. and set the product range accordingly to meet customer expectations in quality, choice and value for money.

Developing Market

There is a greater range of bakery products available than ever before. These are produced from traditional and recipe formulations from around the world. New design packaging with colour artwork purposed to assist customers ease of shop locating their choice.

Working in partnership with our suppliers, sharing market research, identifies customer needs and future trends. Using this information and investing in new product development we aim to be first to market. We would be naive to think our competitors did not have similar plans. This healthy competition drives our teams to be smarter and sharper creating new

products for a fast developing market.

Grow sales across categories

An inspiring bakery range can impact sales across other food categories. Customer surveys tell us, more and more people shop for meal solutions, inspired no doubt by food magazines and celebrity chefs like our own Jamie Oliver.

Fresh egg shell thin crusty breads with light open crumb texture twins deliciously with deli cheeses and cold meats. Scones fresh from the oven go nicely with strawberry jam from the grocery and Cornish clotted cream from the dairy make an ideal afternoon tea.

Our store colleagues are trained to know about the products they serve and are able to describe them to customer using the five senses. They are also taught what foods compliment each other and are able to assist customer in meal solution choice. In this way customers are provided with great service in choosing products they will delight in eating and so revisit to purchase more.

Bakery offer every store

Sainsbury's is currently undergoing the largest change programme in its 135 years history. This is to ensure its place as a leading food retailer with the mission to be first for food. Our customers expectation of us has, quite rightly, always been high. Regardless of which Sainsbury supermarket our

customers shop, the food offer and service will be as similar and consistent as we can make it. Our total

bakery offer includes crusty bread from an in-store bakery in every one of our 501 stores. Going forward on a smaller scale, this offer is being extended to convenience outlets such as petrol station forecourt shops.

First Bakery

History, a record of past events, successes, failures and changes. A benchmark of where we were then and now. A vital business tool.

Sainsbury's opened their first instore bakery in Telford in 1974. This was made possible by technological advancement in the bread making process by the Flour Milling and Baking Research Association (EM.B.R.A.) at Chorleywood. Quality bread for the first time could be made and be on the display shelf warm and fresh within two hours.

Store trading hours then were considerably shorter with no Sunday trading which made it easier to schedule bakers to produce bread throughout the trading day.

Shorter trading hours meant more customer activity and busy counter service leading sometimes to long queues, but the reward of fresh warm bread coming straight from the oven into the customers basket was worth the wait.

1980 Growth

In-store bakeries were a major hit with customers and steadily increased in numbers during the late seventies and throughout the eighties. Staffing them with skilled bakers presented no problems. The modern in-store bakery removed the need for night working and offered a very

good financial and benefits package.

In-house training programmes were put into place aligned to procedures manuals. Day release college courses were also funded for bakers to achieve City & Guilds baking qualifications.

The company was engaged in an intense store opening programme with up-to 20 new stores per year featuring an instore bakery. Area Bakery specialists were engaged along with other field teams to manage this fast moving programme and see over the performance of existing bakeries.

Peak

During the early '90's in-store bakeries were at their peak. Recruitment of skilled bakers to fill existing vacancies and provide for new store openings was starting to cause problems.

Trading hours by this time had increased considerably and Sunday trading was now established. The bakery product range was much larger and self service fixtures needed to be kept full as well as serving customers from the service counter.

In-store bakeries had become much more complex and more than ever required trained colleagues good management.

1992/3 Skills Gap

By the mid-nineties not only Sainsbury's in-store bakeries were noticing the baker skills gap so was the rest of the food retail and baking industry.

Year on year financial performance in our I.S.B.'s started to be affected by this.

College decline

Colleges were failing to attract students onto bakery courses and subsequently had to close bakery departments making tutors redundant. There are only a few colleges remaining offering bakery courses.

Training did not meet the business need.

Colleges simply did not keep pace with the technology changes within the industry. Employers realising there was no business benefit ceased supporting the courses.

Up-skill our own colleagues

If colleges weren't able to teach current industry dough making processes who could!

To rely on our college trained Bakery Managers to train their bakers without refreshing their knowledge with the latest bakery technology would have introduced unacceptable process variances across our store estate.

Training Strategy

Sainsbury's has always placed the importance of training at the top of their agenda and it threads through all strategy the company follows. As I have

said before "a major differentiator in the U.K. food retail sector will be the performance of our people".

Up until now bakery being the last fresh food addition had been left to operate almost separately, managed by its own subject matter experts. Moving forward it was time to review the operation aspects of the I.S.B. and integrate it into the main

stream where store colleagues are multi skill trained to provide the stores with a flexible labour resource.

Campden & Chorleywood Food Research Association (C.C.E R.A.) was approached and asked to make a study of our in-store bakery bread making processes and advise a training solution.

The timing of our approach to the CCFRA was fortuitous as the principles of dough making had been recently affected by an E.E.C. ruling on oxidants which made it much easier to simplify underpinning knowledge to our specific processes for training purpose.

Working with the C.C.ER.A. a four day course was designed to focus our Bakery Managers on product quality and availability and provide them with sufficient underpinning bread making process knowledge for them to control the outcome of baked products to recipe standards within a set time frame. This became known as 'The Bakery Managers Focus Course'.

Focus Course attendance

Through-out 1996 Sainsbury's invested more than a quarter of a million pounds placing every Bakery Manager to the 'Focus Course'.

Three venues were used located in the **North / Tameside College Manchester, Midlands/ C.C.ER.A. Chipping Campden and the South / Brooklands College in Weybridge.**

Bakery Teachers from the colleges attended the first courses run at the C.C.ER.A. up dating themselves with the

advancement in baking science to achieve delivery consistency.

The C.C.ER.A. audited one day of each four day delivery in the college venues to ensure standards were met.

National Training Award

The Focus Course was an outstanding success in delivering the latest baking science in a basic easy to understand way. Feed back from our Managers was really enthusiastic and it was interesting to note how long many of them had worked for the company, on average 12 to 14 years.

Our Human Resource department entered the course for the 'National Training Awards' run by the 'Department for Further Education' in 1998. We entered as a partnership with the C.C.E.R.A., Brooklands and Tameside Colleges and were successful in winning the award.

BakerTraining

Post 1996 the Focus Course became BAU as part of the bakery training offer.

A new course was developed and designed by Sainsbury's and the C.C.E.R.A. for bakers and managed by Brooklands College.

This course received NVQ accreditation at level 2. and successfully run up-till the end of 2001.

National standards vital

As I have already said, training is at the forefront of our thinking. We are an 'Investor In People ' and firmly believe colleague learning achievements should

be recognised by a qualification.

Sainsbury's is represented at the Bakery Training Council which will soon be dissolved to join a Sector Skills Council headed up by Food & Drink.

The main responsibility of skills or training councils is to work with industry and the Qualifications Council Authority (QCA) to establish skills and knowledge standards for all job tasks and to map them into national qualifications. Sainsbury's has been and still is actively involved in this work.

Qualifications under review

We know there has been much controversy with the uptake of N.VQ.'s for many reasons which have led to a number of companies opting for Q.C.A. recognition of their own qualification but in the mean time National Vocational Qualifications are under review to find a solution to simplify their implementation.

National training standards are essential. A work force is transient throughout industry and there has to be a competence measure to assess against. Even if companies choose to opt for their own qualification it has to reflect national standards to make it creditable throughout industry.

Step Change

We reviewed our training programmes and found they were not meeting the changes taking place in the business and the market place. This was more to do with the way training was structured and delivered, than its content.

We now have in place a robust training structured that addresses colleague training needs from induction on joining the company through foundation, intermediate and advanced at which stage suitability for management training is assessed.

Trade skills back into the Meeting the business business

From the day John James Sainsbury and his wife Mary Ann opened their first shop in 1869 their declared aim was to sell the best butter in London. This aim has held true to the current day and extended to be 'First for Food'.

We are now putting trade skills back into the business starting with our fresh food departments giving priority to in-store bakeries.

New bakery teams

Encouragement is being given to internal store colleagues to train and learn bakery skills.

External applicant's seeking to join Sainsbury's will be offered bakery training as part of a career development programme.

Qualifications

We have the right baking science knowledge and access to ideal training facilities to train anyone who wishes to become a baker.

The only qualification required is the desire to learn and take pride in their own achievement.

Accelerated training programme

We have a four week intensive bakery training programme in place to train colleagues to become bakers.

Staff retention

We believe quality training in a safe un-pressured environment inspires colleagues to do well and really appreciate the company investment in them. This helps enormously embed them into the company way increasing the chances of keeping them long term.

Teamwork.

Properly trained colleagues work hard but with reduced stress knowing they are in control. This in turn promotes team work and job satisfaction.

Quality

Colleagues with pride in their work built from an underpinning foundation of knowledge are likely to be more efficient and focused to providing quality products day after day.

Customer satisfaction

Customers that can find the product of their choice produced to a high standard, fresh within a few hours from the oven will be satisfied with the purchase and return for more of the kind.

<p>'first for food' with Sainsbury's bakeries</p> <p>Sir Peter Davis</p>	<p>first for food</p> <p>Food retailing and related activities</p> <ul style="list-style-type: none"> UK businesses: <ul style="list-style-type: none"> Strong brand Sainsbury's to You Sainsbury's Bank US business - Shaw's <ul style="list-style-type: none"> Strong market position in New England 199 stores 	<p>first for food</p> <p>Sainsbury's supermarkets</p> <ul style="list-style-type: none"> sales of £14.660 billion 524 stores 145,400 employees 20,000 product lines in average store on-line service Sainsbury's To You strong total bakery offer 
<p>first for food</p> <p>The current marketplace</p> <ul style="list-style-type: none"> Safeway's and Morrison's Growth and consolidation in convenience sector  	<p>first for food</p> <p>Price and quality key drivers</p> <ul style="list-style-type: none"> Sainsbury's brand "extraordinary quality and ordinary prices" First for Food quality, choice and innovation 	<p>first for food</p> <p>the importance of in-store bakery to Sainsbury's</p> <ul style="list-style-type: none"> a destination department fast developing market ability to grow sales across all categories bakery offer in every store 
<p>first for food</p> <p>the history of bakery within Sainsbury's</p> <ul style="list-style-type: none"> 1974 Sainsbury's opened our first in-store bakery 1980's a real growth period for ISB 1990 ISB was at its peak 1992/3 trade skill gaps became more apparent 	<p>first for food</p> <p>the history of bakery within Sainsbury's</p> <ul style="list-style-type: none"> bakery colleges were in decline available training did not meet the business need recognition that we had to create our own skilful people 	<p>first for food</p> <p>a period of change</p> <ul style="list-style-type: none"> a need to create a robust training strategy corporately this was centred around the CCFRA gave us the technical insight to manage our specific processes 
<p>first for food</p> <p>a period of change</p> <ul style="list-style-type: none"> 1996 all bakery managers attended a bakery focus course 1998 won a national training award extended training to bakers with NVQ recognition 	<p>first for food</p> <p>a period of change</p> <ul style="list-style-type: none"> we strongly believe national standards are vital current national qualifications under review It was recognised that a major step change was needed 	<p>first for food</p> <p>the way forward</p> <ul style="list-style-type: none"> trade skills are now being put back into our business we are sourcing our new bakery teams internally enthusiasm and a desire to learn are the key skills required 
<p>first for food</p> <p>the way forward</p> <ul style="list-style-type: none"> an accelerated training program is in place skills and theory training specifically tailored to the business need promotes staff retention 	<p>first for food</p> <p>the way forward</p> <ul style="list-style-type: none"> consolidates and promotes teamwork efficient and quality focused driving customer satisfaction first for food within bakery 	

Sainsbury's mission is to be 'First for Food' and our bakery offer is set for the challenge! Our suppliers of bought in bread and cake have, and are, supporting this aim with much enthusiasm. The challenge for us now is to consolidate operations in our 501 bakeries through a structured and inspired training programme. We must work closely with our equipment & ingredient suppliers to keep pace with technological advancements. In so doing achieve cost efficiencies in machines, space and volume throughput all relevant to sales.

We will never be the biggest but aim to be the best and the customers first choice. And if I may, I will leave you with a feed back comment, made by a store colleague recently who attended our accelerated bakery training programme.

"From checkout operator to baker in four weeks and I can bake better bread than the experienced bakers"

Question - Albert Wood

In your growth you did a bake-off operation some eight years ago, Is it your feeling over the next five/ten years maybe because of the people business to repeat that venture into bake-off ?

Answer - It's a very good question, as you would expect from someone who started the Asda bakery operation, which is a very fine one. We have tried bake-off a number of times and we are still almost entirely a scratch operator. The exception to that is in our very smallest stores where there isn't room to do a scratch operation. We keep trying and I think if we don't solve the skills issues and keep the costs under control we will inevitably keep trying because the bake-off is always more attractive in terms of use of space, capital and return, but we haven't yet succeeded in getting bread to taste quite as good in most of the bake off operations as we can in scratch and so at the moment we are still very committed to scratch where we have the space. Now Richard, would you like to comment on that.

Richard Ball - Yes referring to the Coolcore venture which we undertook about eight years ago and it didn't turn out great as per the scratch operation and we are, as Sir Peter has already said, we want to be first in food and the flavour of the bread isn't the same. We are looking at ways of making the operation more economic but as you are suggesting it looks a better operation to go bake-off, its much simpler, but in terms of profit the bake-off operation doesn't return the profit as it does in scratch. We can get the

labour under control in scratch and we can make the economics of machinery, the capital outlay much better. It's possibly a sounder route

going down that path and we are look also at ways of making more cost effective the machinery within our bakeries to continue the scratch operation but on a much smaller scale.

Sir Peter Davis - I think that's the key to it really, we need to work constantly to make the scratch more effective which means using the space better or less space preferably and making the equipment more reliable in some cases but also to get the return on capital better. And the two key issues are the return on capital employed which includes the space and the cost of the skilled labour and provided we can keep that in reasonable balance and the product continues to be preferred by customers then we will continue to operate scratch bread bakeries out of choice. But I must say the quality of some of the bake-off is getting better although its not yet the same and in the smaller stores where we offer the bake-off its still very well received by customers, when they are not being offered the alternative of scratch. So I think there's always going to be a trade off. I passionately believe that good fresh bread is an important part of a good food supermarket offer and if you go to France and look at the hypermarkets in France I think they do bread and if you look at some of the American operators they do bread still better than generally we are doing in this country. There is more theatre and flair in some of the presentation and skills there. I

sometimes think we try and do too big a range and try and do too many things and you don't get the same impact that you get in some of the French or some of the American stores so I think we have some way to go yet to get the scratch operations to do as well as they might.

Question - Rob Morrison

The point you made that the industry is in the most competitive market you've experienced, what impact is that going to have on British farmers ?

Answer - I don't know if you all heard that question, it was about what impact the competitive nature of the market I was talking about is going to have on British farmers. I think it's going to have quite a significant impact, if we let it. I've been heavily involved in the last three or four years on the whole issue of farming and agriculture, I was the only retailer on the Curry commission looking at the future of farming and foods and a much smaller group was then established to supervise the implementation of the Governments new policy on sustainable food and farming. I'm part of that very small group and I'm involved in two of the working parties on it too and

I also lead for business in the community the rural action programme, so outside my day job I'm doing quite a bit in this area. My wife comes from a farming family, I have a lot of friends who are farmers and I have my ear bent on many occasions and there is a very real challenge for British farmers and there has been for the last five to fifteen years and its not simply about the growth of

supermarkets which it is sometimes characterised as. Its partly, if you have read the Curry report, and I'm not expecting many of you have done so but we gave some very good figures in there which show that half the decline in farmers incomes over the last five years was due entirely to the change in currency and its about payments in Euros. All their costs are in Pounds and their payments are in Euros. Now for the five years when the Euro was weak and the Pound was strong that disadvantaged British farmers considerably. We've had a bit less in the last year when the euro has strengthened but one of our recommendations was to try and iron out some of those currency issues for farmers, because any business that has its cost in one currency and its income in another currency knows that's a recipe for problems and volatility and what no businessman likes is volatility but therefore half the problem is around currency. The second thing is that we have a climate that does not suit us for growing everything yet we grow almost everything, except obviously tropical things and the way farming subsidies in the past I think they were probably too broadscale and they were around production. I think it comes out of a wartime mentality when production was the issue rather than economic production or concentrating on what is best in your country and I think we were too much looking in the rear-view mirror and not enough looking forward. I think the move away from production subsidies to environmental subsidies or land based subsidies is a good move,

and I know there are many in this Government who would like us to get closer to open market prices in world markets for food, that would mean it would be difficult to compete for many British farmers or growers because we don't have the nature or the climate to deal with. To compete on equal terms with every major producer in every part of the world so the choice really for British farmers is to see these trends coming and to adapt their business. Difficult to do if you're a farmer in dairy in Hertfordshire for example where there are almost now no dairy farmers. I thought it was significant that the Co-Op this year have come out of dairy entirely and there are significant changes that are going to continue to take place. The big issue for us from a retailer point of view is that we have always had a policy of supporting British farmers and agriculture and we believe that our customers want us to do that. But there comes a point at which competitively you wonder whether you can still keep doing that. We are still on 100% British chickens for example, at least one of our major competitors

is very much the other way and its only in certain of our recipe dishes that we have any imported poultry at all and in many of the sectors that we are in we are still 97% British pork for example, we are still very heavily in British sourced product but its getting to a point where competitively we have to address that and we may have to offer more choice to customers of an imported product at a different price or a British product. We've rather made that choice for them in some

categories, I don't think we can continue to do that, I think we are going to have to let them make the choice as we do in some categories already. It is a really difficult issue, I personally believe that nationally we should keep a food production capacity to the biggest extent that is economically sensible and that we should make every effort to maintain that capability. We all saw what happened in the fuel strike, how quickly the supply chain lines dried up on fuel and I think from a national point of view in this age of terrorism I am much more comfortable that we have a capacity to grow and produce more product in this country that economically might be viable. The Government don't accept that, but you have to get that balance right. I think there are issues about the buying power of supermarkets clearly and it's partly because farmers are not well organised or banded together. The people you don't hear much about in the middle are the processors, we don't deal with farmers, we deal with processors, and we have just had an example recently. I better not be too specific with the press here, but we've had a bit of trouble with a group of farmers over a particular product category, when in fact we traced it back its because that particular processor has been taken over by a farmers co-operative and the farmers cooperative has reduced the price to the farmer but not reduced the price to us. So I think what we tried to do in Curry was to set up some independent work through the food chain centre, to try and establish what the economics are in different parts of the foodchain and the first of

those reports should start coming through soon. But I think we need to look in the middle of the processing sector and the efficiencies of the whole operation as well as simply saying supermarkets are too powerful, they should pay a bit more, easier said than done because the only other choice is to go overseas.. Sorry a very long answer to a non-baking question.

Question - Derrick Hughes

*Back to your comment about making scratch baking more competitive this is something that we have been working on with one of your competitors for a number of years and that is to rationalise the amount **Of**, I think you described as loose bakery equipment you have in your bakeries. You go in most scratch bakeries and Sainsburys is no exception. You will find there is one corner which is a rack park where the baker has equipment that he needs. He only needs it occasionally but he has to have it and also because he does not have that equipment serviced regularly, because its lost in servicing more complex equipment its inefficient. Its inefficient from your point of view and its inefficient from your customers point of view. The way forward, and I'm doing a commercial here, I will ask my friend Albert Wood who is the company who worked with us on this and he is very clear that the costs and the benefits to you the producers of bread is significant and I would put it in the terms that when we started, and Albert will question me if I am wrong, I think we have reduced by nearly 50% the amount of equipment in their scratch bakeries and they are producing considerably more product at a better quality than they did in the past and I think that if you*

the bakers want to improve that, to come and talk to people like ourselves who are on the side but we are there to improve the efficiencies of your bakeries. Thank you.

Answer - Thank you. I take the point and we're very happy to learn from the experience of others and we'll follow up that point.

Question - Paul Heygate, Northampton

*You mention costs, you mention return on capital, you mention space and you also used the word theatre and I'm not too sure how you can reconcile all of those in producing a product that helps to attract more people into your store and at the end of the day one is fighting the other and something is suffering. You started in 1974 because you wanted fresh bread, and you then opened longer hours. You now need twenty four hours a day. You always did lead and probably still do on sales per square foot or square metre and also per person employed and I'm slightly concerned that you have a bakery that you need for theatre, your words not mine, and that you're really putting other costs in there and not truly reflecting the spin **Off** of having very good bakeries which helps to attract people in to spend more money in the rest of your store.*

I also then come on to the second question because your neglecting something that the Curry Commission and the report talked about which was food miles and surely food miles means that the product has got to come and be sourced more locally.

Answer - Yes, I'm still trying to work out what the first question was but I think its about the trade off of theatre and space

and whether we allow sufficiently in our calculations for the benefit of the bakery to the store operation as a whole. The answer is yes or we still wouldn't be building them with the space and cost that we do. On a free standing basis they wouldn't justify the space and capital equipment that goes into them it has to be taken as part of an overall offer and that's why I think its important that we keep working at that combination as the gentleman over there in the commercial said, you've got to keep driving down the use of equipment and the costs associated with it, without affecting the quality. That's what productivity is all about and unless in this country we improve our levels of productivity its going to be very difficult for us to compete in many areas and certainly we need in Sainsburys to improve our productivity further. We are

no longer the leading operator in sales per square foot and part of that is because we are not getting the sales out of our non food that we get out of food, as we put more space into non food it has lowered the average, but at a time when our competitors have done better in non food than we have. So we do need to improve our productivity, we need to lessen the space and increase the return on capital while still providing the theatre and attractiveness for the operation as a whole.

On your second point about Curry and food miles you are absolutely right but I'm not sure what your question was, what it about Sainsburys and food miles or about bakery and food miles ?

Paul Heygate - *I think you said that it came in from abroad, everyone brings in a tremendous*

amount of salad foods, and I know they come from a vast distance and I believe there is no tax on the air fuel.

Answer - No there is no tax on the air fuel and I know the Government is looking at the question of tax on air fuel because it was on the news this morning that they are not going to meet their climate change targets because of other growth in cheap air travel and the rapid increase in air travel. I am a believer in local sourcing and reducing the miles that good travel for environmental reasons, the problem for Sainsburys is that we are very good dealing with these issues and if you read the Sunday Times yesterday you will see we are the top retailer in the Corporate Social Responsibility Survey, we were seven out of all the Footsie companies, and ahead of people like Tesco and M & S. We are very good at our social responsibility.