



"The Sandwich Market" Nigel Hunter

Good morning Ladies and `Gentlemen and thank you very much for giving me this opportunity to address you on the UK sandwich market, an industry I have been personally involved with for over 11 years. Now baking is an activity that has sustained human societies for thousands of years and many of you may have spent your whole working lives in it. So my 11 years may not seem so long to you. But the very first pre-packed

sandwich in the UK was sold by M & S just 25 years ago, so I have personally experienced not far short of half the entire life of this fascinating and rapidly moving market sector!

That is little misleading, of course, because sandwiches of one type or another had been eaten for centuries before the first thermoformed plastic skillet appeared on the shelf of a chilled display cabinet. The invention of the sandwich is often attributed to the Fourth Earl of Sandwich, John Montagu, who is supposed to have called for beef between two slices of toasted bread during a twenty-four hour marathon at the gaming tables in 1762. This may indeed have happened. Although the Earl was shortly to become a cabinet minister, he was indeed well known for gambling and general carousing and was a leading member of the Hell Fire Club. Another legacy of his is that in 1776, as First Lord of the Admiralty, the Earl outfitted and despatched James Cook on his famous around the world voyage and had the Sandwich Islands in the Pacific named after him, now better known as Hawaii!

I digress. The obvious truth, of course, is that forms of bread had been used as a base for various savoury fillings or toppings all around the world for ages. Chapattis, Tortillas, Matsohs, Pittas and Naans were all cereal based staple foods, effectively used as a method for eating meats, cheeses, gravies and juices without the existence of plates and cutlery - a far more modern invention. In the Middle Ages thick blocks of course, stale bread were often used as a substitute for wooden plates; they were known as `trenchers'. It is difficult to believe that no one ever put another slice of bread on the top until the 18th century!

In the 19th century Mrs Beeton included an elaborate collection of sandwich recipes within her famous Book of Household Management. And now there are probably more sandwich types and recipes around the world than there are towns and cities.

So what does the sandwich market look like today? Well the first thing to understand is that, using consumers' information on the market and any issues directly affecting the market, and own definitions, nearly 80% of all sandwiches are actually made at home! I suppose you could argue that they technically don't represent a `market' at all, since the product isn't directly bought or sold, but it's one hell of a lot of

sandwiches! According to the TNS Family Food Panel, there are 8.8 billion sandwiches made at home in a year. I have done a crude comparison with their Worldpanel data for total in-home bread purchases and calculate that about 40% of all retail bread and rolls is used in-home to make sandwiches. I don't know whether you think that that is high or low, but it certainly

demonstrates the very close and important link between our two industries, with another 2.4 billion sandwiches made and sold commercially. Presumably the other 60% of in-home bread and rolls becomes toast or plain bread and butter or is used as a side-servicing with soup, salad or some other meal. Whilst I understand that total UK bread consumption is in very modest volume growth - with value growing faster because of the trend to premium and speciality bread - total sandwich consumption is actually pretty flat. However, as in so many other food markets, what people make at home is suffering at the hands of the purchasing of pre-prepared versions. In a year, well over 60% of the total GB population now buys sandwiches, on average about once a week and they spend about £100 per year doing so.

This chart gives a breakdown of UK sandwich consumption. It shows that the biggest sector, made and eaten at home, is actually in decline, whereas sandwiches in lunchboxes and those purchased outside the home are both growing. Lunchboxes are an interesting topic in their own right, with the quarter of them that are taken to school growing at no less than 10% pa. But I am here today to focus on the commercial sandwich market. So let's have a look at this huge market in more detail.

The first thing to say is that you will come across several different estimates of the total market value. TNS themselves will tell you that, on their data, it is worth £3 billion. The British Sandwich Association, on whose committee I sit, will tell you it is worth about £3.5 billion, whereas I, myself, believe it is worth about £4 billion! The two main reasons for this are (i) TNS do not achieve 100% pick-up or accuracy in the data they record and (ii) there is a big chunk of sandwich sales in foodservice outlets that is recorded neither by the new TNS Food on the Go panel, nor by TNS Worldpanel. So I'm sticking with my estimate of £4 billion, which, incidentally, makes sandwiches bigger than the total frozen food market and about twice the size of the total retail market for bread and morning goods. Moreover, when you calculate the FTE number of people directly employed in the UK sandwich industry, it is about 300,000, far more than the total number employed in agriculture!

To try to understand this enormous, growing market, there are a number of ways of looking at it. I'll start off by considering the way the product is presented to the customer at the point of sale. By far the oldest and initially most widespread method is 'Made to Order on Site'. Until recently, with the dramatic impact of Subway, this sector has been in decline for years, following the fortunes of the traditional outlets using this methodology: typically cafes, delicatessens, independent bakers and sandwich bars. Indeed, if selling sandwiches is the major activity of an outlet, it is difficult to be efficient and make money with this model, as the peak sales period is concentrated into a couple of hours in the middle of the day. It is for this reason that more recent entrants like Pret a Manger and the like, whilst still making all the products on site, fill up display cabinets with prepacked products all morning, ready for the lunchtime rush. Greggs are another good example of this.

But it is the recent upstart, the just 25 years old pre-packed, bought-in sector, that is unquestionably leading the overall market growth. Convenience, portability, ever-growing availability and improving quality have combined to generate market growth currently worth about £120 million each year!

Indeed the breakdown of where sandwiches are sold looks very different between the pre-packed sector and the total market. Across all sandwiches in total, bakers are just holding on to their leading position, closely followed by multiples, the

workplace and then the myriad of cafes, sandwich bars and coffee bars. But in pre-packed, multiples now account for about one third of the market, followed by the workplace and convenience stores.

Outlet types are all very well, but what about individual store fascias. Who now sells the most sandwiches? For many years M & S were seen as the undisputed No 1, in reputation, as well as numbers. But the Tesco juggernaut, with supermarkets being joined by hundreds of Cstores, overtook them several years ago, as indeed did Greggs, who are arguably a chain of fast food outlets, also selling bread, rather than bakers! On the very latest data this summer, the rank order by number of sandwiches sold runs in reverse order. 5) Sainsburys, 4) M & S, 3) Greggs, 2) Subway, 1) Tesco whereas by value the order is now 5) Sainsburys, 4) Greggs, 3) M & S, 2) Tesco, 1) Subway. The famous Pret a Manger just scrapes in at No 10! Whilst there aren't yet many rich Subway franchisees, the American giant is overcoming the

disadvantages of the Made to Order model and, with 750 UK outlets and a plan for 2000 within 4 years, threatens to replace McDonald's as the King of Fast Food in UK High Streets! All the evidence suggests that Subway's growth is coming mainly from other fast food sales, rather than other sandwich outlets. According to Tns data for the last six months, only 18% of Subway's sales volume has derived from switching from other sandwich outlets.

What about the actual products that make up the sandwich market then? The fillings, the carriers, the price points and so on.

This chart shows that "sandwiches", that is two slices of bread, generally cut into triangles, although also including bloomers and such like, make up about two thirds of the market. The other key carrier types are rolls and baps, followed by baguettes. The latter, which include subs, are growing fast on the back of Subway's rapid expansion. Wraps are only about 4% of the total market, but are far bigger than that in the major retailers, where their share has now grown to about 15% of all sandwiches sold. I believe wraps have benefited from a consumer perception that they contain less carbohydrate than bread and from the fact that they are so easy to eat on the move. Indeed they are arguably the savoury equivalent of the ice cream cornetto!

Moving on to fillings, there is nothing especially surprising to report. This Sandwich Track data covers five full years up to 2004 and shows the growth in the appeal of chicken, which is well recorded in the meat market. After chicken the key proteins are cheese, ham, prawn, bacon, egg and tuna. Beef is very rare and lamb and plain pork virtually non-existent.

With regard to price, the average, volume weighted price paid for a sandwich is currently £1.65. But there is a very wide spread with an Asda Egg & Cress twinpack at 78p and many premium sandwiches in the £2.50 - £3.00 region. The average price is certainly on the way up, driven by the trend to more premium products, as well as bigger ones! During my time in the industry I reckon the average weight of a pre-packed sandwich has increased by at least 20%.

Okay, so hopefully you now understand a reasonable amount about the UK sandwich market as it is today. But where's it going? What's going to happen to it and why?

The first thing to say is that it is virtually certain that the overall market, and the pre-packed market in particular, will continue to grow for many years to come. There are lots of reasons for this, as the sandwich ideally fits all the major trends towards convenience, freshness, portability, snacking/light meals and perceived healthiness. But I believe there are also three other major drivers of future growth.

- i) **AVAILABILITY.** Twenty years ago there were a limited number of places where you could buy a sandwich. M & S, Boots, leading grocers and some cafes and bakers. Now there is an extraordinary number of new outlets, from specific sandwich bar chains like Pret a Manger, Benjys and O'Briens, through the coffee bar chains of Starbucks, Costa, Cafe Nero and Coffee Republic to the multiple owned convenience stores like Tesco Metro and Express, Sainsbury's Local and Central and of course M & S Simply Food. I estimate that these named new chains on their own sell about £400 million or 10% of the total sandwich market today. Add in all the new independent sandwich bars, the Coop and symbol convenience stores, the petrol forecourts and contract catering canteens and probably 20% of the market is now coming from outlets simply not there 10 or 15 years ago. About five years ago we carried out an experiment for a major customer of ours to find out in several city centres how many places you could buy a sandwich within 500 yards of one of their stores. The winner was in the City of London, where there were no fewer than 87 competing outlets within a five minute walk. Today there will undoubtedly be well over 100! And this expansion of the opportunity to buy sandwiches is still building. Whether it is coffee shops in bookshops and garden centres, sandwich outlets in all forms of travel locations, fresh chilled vending machines in offices or the increase of sandwich offers within contract catering, the consumer is finding it easier and easier to buy the product.
- ii) **DEMOGRAPHICS.** Sandwich consumers have a demographic profile most FMCG brands would die for! Buyers are split about 50:50 male and female, although the men buy and spend more, accounting for about 60% of market value! No less than 20% of buyers come from Socio-Economic classes A and B and a further 36% from C1. Together these groups account for nearly two thirds of expenditure. But most important of all is the age profile. 35% of adult buyers are under 35 and, as you can see from this chart, penetration declines with age. But it is when you look at expenditure on sandwiches that the differences really emerge. Compared to their share of the population, 25-35s spend nearly four times as

much on sandwiches as 55+s. Indeed 55+s account for one third of adults, but only 13% of sandwich expenditure. Part of the reason is obviously that the purchase of sandwiches is linked to working status, but the most important factor is that the sandwich market is very young. People of roughly my age were really the first to get into the regular sandwich habit, whereas youngsters entering the workforce now are already big sandwich consumers. Looking simply at the age profile of buyers would indicate that there is at least a generation of further growth virtually guaranteed.

- iii) **A LACK OF CREDIBLE ALTERNATIVES.** One thing that might theoretically impact on the growth of sandwiches is the emergence of an alternative food type which consumers might switch to. Some years ago people thought that pre-packed snack salads and sushi might develop into a real threat. But while both product types are growing, sandwiches are still about 16 times bigger than snack salads and 100 times bigger than sushi! Arguably the main competitors to a sandwich are either a burger in a bun, which is in decline, or a Cornish pasty or a pork pie, both of which suffer from some serious health issues! There is no shortage of new concepts from 'Dips to Go', through microwaveable meat snacks, cheese snacks and portable breakfasts to go, but none of them is doing that well and it is difficult to see anything to seriously challenge the sandwich.

The only thing that might badly impact on the fortunes of the sandwich market is a major food poisoning outbreak or health scare. That is why the BSA focuses so much on improving technical standards within the industry, why we and the other leading manufacturers are so demanding of our suppliers and have such effective technical controls in our high risk production areas. NHS hospitals could learn a lot from investigating the personal hygiene and factory cleaning procedures within a high risk chilled food factory!

So if growth is virtually assured, what is likely to change within the market?

In no particular order, I would suggest that most if not all of the following are likely to take place:

- i) More premiumisation and specialisation, with greater emphasis on both health and indulgence and less on the everyday, bog standard sandwich
- ii) More attempts to introduce very short shelf-life, 'ultrafresh' products in some outlets, as well as a move to longer shelf life in others. But frozen sandwiches will not succeed
- iii) More wraps, paninis and baguettes, and other speciality breads, with a very slowly declining share for the triangular wedge
 - iv) More and more cardboard skillets and fewer plastic ones
- v) Ingredients and recipes which will follow the restaurant, takeaway and ready meals markets, but will have fewer and fewer additives and other 'nasties'
- vi) A continued trend from made-at-home to purchased outof-the-home and, within that from made-on-site towards pre-packed, but with the notable exception of Subway
- vii) An ever expanding selection of outlets and locations in which sandwiches can be bought and
- viii) The gradual disappearance of most small, regional prepacked manufacturers and a consequent improvement in food safety standards in the industry.

Certainly my own company, Buckingham Foods, which is one of the 'Big Five' suppliers to the major retailers, is focusing very heavily on speciality premium sandwiches. Already less than a third of what we sell is in plastic triangles and at least 40% doesn't involve sliced bread at all and we expect these trends to continue.

I suppose one other thing I should say about the manufacturing of pre-packed sandwiches is that it has always been the ultimate Just-in-Time business. Many other sectors of industry are being dragged kicking and screaming into the complexities of having to deliver and often make everything every day, but we have always been there. Running a sandwich factory is an extraordinarily tough, high pressure job. Every single day in our Milton Keynes plant we start with absolutely no packed stock at all and then proceed to assemble, against a recently received order, around 150 different recipes, using over 300 different

ingredients, 200 packaging items and around 400 factory staff. If all the ingredients are available on site and to spec, the people all turn up and the equipment all works okay, we should have 20-30 minutes leeway at the end of production before the despatch vehicles must leave the site to hit customer delivery deadlines. If anything goes wrong, it gets more challenging! Oh, and by the way, if we don't make it today, it's gone for ever, but our customers still expect a minimum of 99.7% order fulfilment across a week, or they start getting angry! So if any of you supply a sandwich manufacturing company, you'll understand why we get so paranoid about delivery times, quantities and quality. And just to emphasise the complexity, we make between 250 and 300 recipe changes or launches every year!

Finally I am indebted to a friend of mine, Philip Brown, who has just sold his Philpotts chain of industry-leading sandwich bars for an enormous amount of money, for the following enlightening snippets about sandwiches;

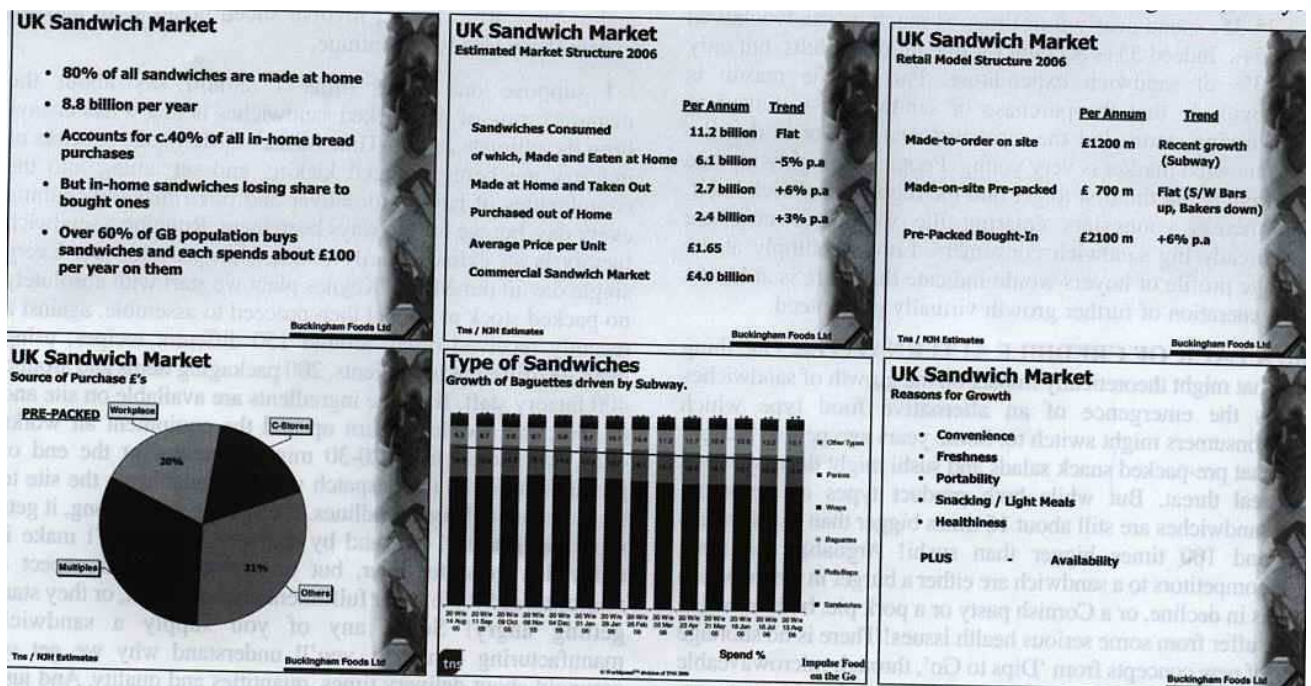
- There is one town in Kent and no less than three in the US called Sandwich - One of the first references to sandwiches in literature can be found in Charles Dickens' "Pickwick Papers"

A contraband beef sandwich was the subject of a US Congressional enquiry when astronaut John Young smuggled one on board Gemini 3 to supplement the awful NASA rations!

- Elvis Presley in his later years used to achieve a dietary intake of over 20,000 calories per day with the aid of his favourite sandwich - deep fried peanut butter and banana. In fact you can find the recipe in a cookbook on sale at Gracelands.

In many ways the baking and pre-packed sandwich industries are at absolutely opposite ends of the food manufacturing spectrum. Centuries old craft skills vs modern assembly. High levels of capital automation vs labourintensive flexibility. Dependence on a handful of raw materials vs a massive range of ingredients. Ambient vs chilled. But we are united by the challenges of our customers, the need for rapid change and the unfailing interest and fascination of the businesses we work in.

Thank you for listening and I hope you now understand my industry a little bit better.



Question: Sylvia Macdonald, Croydon - Can you just tell us what are the most popular really premium fillings at the moment?

Answer: Well - pastrami and gherkin, various types of chicken - Cajun, Mexican. There are so many and they change so often I would give you a different answer in 6 months time to be honest.

Question: Sylvia Macdonald, Croydon - You have experience in the past in managing brands, now you are managing own label, does that take a different management structure?

Answer: Yes it certainly does. I spent 15 years in branded food manufacturing and I think the organisation structures that work with brands where you basically have brand champions covering countries or even continents and you have central sales and finance, and HR and then you run the factories as separate units. It's a tried and trusted model that works exceptionally well with brands but as one or two major UK food companies have found out in the last few years it is entirely the wrong way to run own label businesses which has to be customer facing at the manufacturing unit and I am pleased to say my owners resisted going to that central model all through the period when it was very fashionable for other large companies to do it. I think it makes us much more responsive to the customer, we can take decisions much more quickly and there are very limited lines of decision making control. I think you have to run the businesses very differently and the biggest challenge is when you try to run them both in a single business unit which I think is extraordinarily difficult.

Question: John Lindsay, Chester - First of all thanks for that enormously informative paper I was struck by the figures and numbers in growth on Subway. I know that's not your company but could you give us a little bit of insight into where you think they are going, how big they will get, I know its not your company but if you could share that it would be very useful.

Answer: Yes. Subway is enormous. It has over 10,000 outlets in the USA and they have had several false dawns. Subway first announced their plans to dominate Europe about 10 years ago and I think they opened their first store in Ealing quite a long time ago and they struggled for a long time with establishing the franchising system that was actually going to work for them and the franchisees and the rate of growth was very slow until a few years ago when it started to move forward, and if you talk to Subway franchisees they will tell you you can just about make money with one store providing you don't cost your own labour of course. Running a second and third becomes a lot more difficult because you need to employ somebody else and you then need to get to 6, 7 maybe

8 before you've got a realistic chance of making a reasonable amount of money because everything is prescribed. You have to buy all the ingredients from one nominated supplier at a fixed price. All your marketing and publicity material is given to you. The signage of the shop, the menu, the counter, everything is prescribed. The only thing you really do is find innovative ways to get customers and manage the staff as efficiently as you can and arguably the biggest single job in Subway is to manage the staff because you've got this widely varying rate of sale during the day and you've got people who generally don't want to come in for 2 hours, so I think that's the biggest challenge. But I do think they have now got past the tipping point and the rate of opening, as I say they've got 750 at the moment, they are aiming to have 2,000 by 2010 and I think they probably will have and if I worked for McDonald's, Burger King or KFC I would be more worried about it than I am working for a sandwich manufacturer.

Question: David Saxby, Huntingdon - Out of interest, all we see of sandwiches is savoury products and I understand that, has anybody ever tried sweet products, I'm thinking of currents, sultanas etc?

Answer: We have. We've launched sweet products. We launched a strawberry and cream sandwich on a rather slightly different type of bread with one of our customers several years ago. We tried plain jam sandwiches for children. We've never succeeded and I have to say I don't really think there is a significant market for it. It's mainly children who want to eat sweet sandwiches and the cost of a pre-packed sandwich puts them out of court for most mothers to be honest. I wouldn't rule it out completely but I don't think it's going to be significant.

Question: Jim Brown, Cumbernauld - First of all congratulations, you've persuaded everyone here they don't want a sandwich factory after your description of a typical working day. You are using more and more different types of bread which presumably includes crusty bread, how do you achieve maintaining the crust at the time the consumer eats the sandwich. Is this a big problem or have you succeeded in overcoming it?

Answer: Yes, there really is no technology at the moment that will maintain crusty bread through the chill chain. There are a lot of people that regularly try to launch what I call ultra fresh sandwiches where the product, for example a baguette, is baked in the evening, delivered to the site at midnight, filled first thing in the morning, shipped out to store and only had that days life on it. In fact we are making something like that at the moment for one of our customers, but it's not actually the freshness that gives the problem, it's the chilling. If you want fresh crusty baguettes you have to keep them ambient and best of all bake them on site and fill them on site. It's very very difficult to retain that texture if you put it through the chill chain. It doesn't really matter whether its 10 hours old or 2 days old, it's the chilling for any length of time that does away with the crusty texture and I am not aware of any technology at the moment that can overcome that.

Question: Andy Pollard, East Yorkshire - Conversely to that there is a lot of popularity with the crustless and crustaway products on the market. Have you gone into the proposition of doing a crustless sandwich?

Answer: No. I would love to be able to buy bread that didn't have crusts on the end because we just throw them away, but I don't think the crust around the edge of the sandwiches is an issue for any of the consumers that I have ever come across. Maybe the odd child, but I think it would have very little resilience or robustness as a product without that edge.

Question: Sylvia Macdonald, Croydon - Who is driving the changes in packaging, who's winning, who's losing out and why are they happening?

Answer: I think originally the very first cardboard wedge which I guess is the biggest change was launched by Pret a Manger on trial in 1999. We were actually working at that time with the idea of cardboard wedges and we launched in Sainsburys, when they launched Taste the Difference, we launched the first pre-packed cardboard wedge into their Cromwell Road store and at the time I think the view was that cardboard was an interesting packaging medium for the premium slice of the sandwich business and that plastic would remain the standard packaging for everywhere else. The main reason is that cardboard is more expensive. Plastic, if you thermoform a reel of plastic and stick a heat sealed film on top of it is much cheaper than buying printed cardboard. So for many years, probably about 5 years until last summer, cardboard was a minority packaging format for the premium tier, so things like Tesco Finest and Sainsburys Taste the Difference, Asda Extra Special and so on would be in cardboard and everything else would be in plastic. But that fundamentally changed when Marks & Spencer moved everything to cardboard last summer on the basis that all of their products are premium so they all ought to be in cardboard. And that has started to change things and we are seeing a lot more product ranges moving into of in terms of our capability. We've now got rid of almost all our thermoformers. We used to have about 12 may 13 thermoformers, we're currently running, I think, 3 and I wouldn't be surprised in a years time if we aren't running any.

Question: Peter Jones, Cheshire - You shied away from the point about obesity and I wonder what the trend was for healthier sandwiches and whether you feel as a manufacturer you have a responsibility to help the Nation's diet or whether you are just feeding fat people who want to be fat?

Answer: I think we have a responsibility to do what our customers want us to do and they are almost all major retailers, so we will follow our customers. But I think more seriously the industry, like the bread industry has already done quite a lot to reduce salt and fat levels are a bit lower but I do think there are contrasting trends. Certainly a lot of people want to eat more healthily and we are relaunching every year our customer's healthy sandwich ranges, but to date none of those ranges have grown, that isn't to say they won't grow but so far healthy eating sandwiches have been relatively disappointing. Most retailers, not all, but certainly the ones we deal with sell far more premium sandwiches than they do healthy sandwiches. I think it's partly to do with the mind set of when you buy a sandwich and I think a lot of the things about sandwiches are to do with the shopping mind set with most packaged groceries. You go to the supermarket and spend £100 on the weekly shop and when you do that saving 5p or 10p here and there is significant because overall you may save £5 or £10 and it makes a big difference and also eating healthily because you are talking about feeding the family for the best part of a week is a significant factor, and I think the health trend and economy are big factors in doing the weekly shop that often don't apply to the purchase of a sandwich. If you've been working in an office all morning and had a terrible time, you go out at lunchtime

and you might want to treat yourself. You might think I deserve a decent thing to eat and whether you spend £1.60 or £1.85 is far less important than whether you really like what you are eating and I think to some extent people slightly suspend the termination to eat healthily in the same way that they do when they go out to a restaurant for dinner in the evening. If you take your wife out for a special meal, eating healthily isn't usually part of what's in your mindset and I think to some extent that applies to the purchase of a sandwich at lunchtime.