

Selling quality cakes to the supermarkets

Speaker: Tony Harris

42nd Autumn Conference - 27th/28th October 1997

Selling quality cakes to the supermarkets

Tony Harris

I intend to cover the following points:

A brief history of Elisabeth The Chef

A short examination of the strengths of own label or retailer brand products compared with manufacturers' brands and the impact that this has on the decision process

What requirements the retailer has of its suppliers - what are they looking for?

What infrastructure is required by the manufacturer to meet the need of the supermarkets?

Conclusion and summary of the main advantages and disadvantages of supplying to supermarkets.

Elisabeth the Chef

I joined Elisabeth The Chef five years ago and they have been among the most exciting years of my working life. As many of you will know, it is a long established business with its roots in Leamington Spa which commenced trading in 1928. The Chesterfield family owned and operated the business until 1979 when it was acquired by UB, which then sold the retail arm and a small bakery to David Owen in 1981. Elisabeth The Chef continued its existence as a local chain of high quality patisserie shops for a number of years before making the decision to commence supply to supermarkets in 1987 initially Asda, followed in subsequent years by Sainsbury, Safeway. Waitrose and others.

My colleagues David and Steve Balmer have often recounted their first trip to a major supermarket. They presented a product which was instantly welcomed by the buyer, who immediately asked for X thousand of them. Steve took out his calculator, did some baking capacity sums and proclaimed that by working three shifts for seven days he could just make that number in a week. The buyer turned round and said: 'No, that's how many I want per day'. Steve and David left the office saying "Perhaps we can come back in a year of two".

It's an amusing story but with a serious message that will recur later in this talk. Capacity is a major issue, not only routine/regular capacity but also promotional capacity where volumes can increase fivefold for short periods.

Elisabeth The Chef grew its business with the supermarkets substantially between 1987 and 1995 and extended its capacity from its original bakery of 3,000sq ft in 1981 to operating

four bakeries in or near Leamington Spa. We had virtually reached full capacity when we acquired Broadheath Foods in Worcester in September 1995 from the Albert Fisher Group.

The rationale behind the acquisition was to achieve not *only* additional production capacity, but also to broaden the range of products available to us and to extend the customer base. As we stand today, the original Eisabeth The Chef business has reduced to less than 1/2%' of our turnover and we operate only two of our own shops. A vague acquaintance of mine stated last year that he thought that Flisabeth The Chef must be having a hard time as we used to have over 20 shops but now he was only aware of two. He was somewhat surprised to learn that we delivered to over 2,600 'shops' every day - logistics being another serious matter to consider later

By 1996 therefore the group had established itself as a major supplier of chilled flour confectionery products to the super-market chains, and had virtually, but not entirely, lost its own brand which we wished to re-establish. We have achieved this in partnership with other well known brand names, starting with the FA Premier League in the autumn of last year to be followed shortly by the launch of our own Spice Girls celebration cakes.

Would we do it again? Well, let's step back a little and look at the background to till' growth of the supermarket position before reaching a conclusion.

The growth of retailer brands

Own label, or as they now prefer to be called 'retailer brands', has now been with us for many years and what started off as a 'cheap and cheerful' alternative to branded products has now become a very powerful competitive tool for the super-markets in their battle for marketplace supremacy and market share.

Supermarkets can use their power to build brand loyalty with various card schemes, bank deals, bonuses and so on, but also with major advertising campaigns. Tesco, for example, spent £26.3 million in 1990 and although only ninth in the overall league table, they were a clear first in the brand advertising table.

Throughout my talk I have used as a source of basic information a book entitled *Creating Powerful Brands* by TV McDonald, published by Butterworth Heineman in 1992. Among many other things this measured the perception of own label versus brands in terms of price and quality in 1970 and 1990. The gap has closed considerably and, I suggest, a similar study today would show an even smaller gap, if any at all, at least in terms of quality.

What am I trying to say, returning to the title of my talk, is that selling 'quality' cakes to the supermarkets no longer excludes own label products as it may have done some years ago. Supermarket retailer brands are quality products in their own right.

Supermarkets' selection of suppliers

What are the supermarket looking for when selecting their own suppliers? Again using McDonald as a source, I reproduce what the academics felt were the criteria to which I will add my own remarks as we go through.

Can they produce quality standards consistently? I emphasise the word consistently, day in day out, seven days a week 52 weeks a year

Are they financially sound? An interesting one. Yes. the supermarket wants stability but it will also want to ensure that only a 'reasonable' margin is earned.

Capacity. Yes - don't forget promotions

Transport. Logistics is a supremely important area not only in terms of reliability but also cost. Primary Distribution may be a long term solution to some of the problems. "ECR" is a most popular phrase at the moment

Equipment. Not only the bakery plant but of increasing importance are the ancillary activities - chillers, freezers, high-care facilities, staff rooms, despatch areas - all of which will be examined in depth by the supermarket

Labour relations. Again the supermarkets demand continuity of supply and do not need a strike to jeopardise their supply

Commitment. Again a very interesting phrase. I think the question could also be asked in reverse - is it a two way street? Among our customers I have to say that with one notable exception, relationships are good. We are particularly proud to have partnership development status in certain cases

Flexibility. Of great importance, particularly when they forget to tell you of a promotion or the EDI link breaks down. Bearing in mind that the order lead times for chilled products at least is a maximum of 24 hours

Stock levels. Not so important for finished goods in the fresh/chill chain but very important for frozen products and for the ingredients and packaging support necessary.

/10a Trade marketing department and communications. I have bracketed these two together as personal relationships and regular contact are vital.

Payment terms - Yes, it is nice to be paid for your work! It is important to ensure that payment terms are in step with those to your own suppliers.

Pride with the association. Again a two way street necessary to develop mutual respect. These are the issues suggested by the 'academics' with which I mostly agree and in addition I suggest the following:

Quality of product and of service. It may have been reflected in the 'pride' point but is clearly worthy of further emphasis. The supermarket customer will not be satisfied with second best, in terms of either the product specification or service level

Price. It is imperative that the super-market customer can recognise you as an efficient low cost producer of high quality products and to be able to generate for them the margin they are seeking

Innovation. New product development is the lifeblood of the business - often in partnership with the customer, but innovation will enhance this relationship

Market knowledge. The supermarket does expect the supplier to know and understand the marketplace and be influential in helping it to reach the right decisions

Technical relationships. As you will be aware the technical requirements of the supermarkets are of the highest levels, particularly with their own branded products, and again it is an imperative that the dialogue and relationship between the technical departments is at least as strong as that between the commercial functions. I cannot overemphasise the importance of this factor.

At both technical and commercial level, the supermarkets will make assessments of the supplier. The technical assessment is far too large to reproduce here but, as an illustration, one supermarket's supplier assessment grid includes the following categories:

Quality

Range and choice

NPD and market knowledge Availability

Logistics flexibility Price

People and organisation

Relationships

Trading ethics

Supplier requisites

I hope I have illustrated with my comments the minimum facilities required to satisfy a supermarket customer in today's market. In summary, these include:

The bakery - fully up to the stringent technical standards applied by the customer and, of course, EHO and other agencies

The logistics to support the chain from delivery of ingredients through the whole process to delivery to the customer

The product - quality and price to fully satisfy the customer's requirement.

People in all areas of the business who know what they are doing and can develop professional relationships at all levels with the customer. In addition to the obvious contacts of commercial, technical, logistics, NPD, don't forget your computer staff for EDI barcodes, pallet identities and so on

Innovation - continual investment in new products and ideas to assist the supermarket in improving its competitive position

Passion - last but not least, passion for the business.

New product launch stages

The amount of work involved in launching a new product on to the shelves is itself quite alarming and the time that it can take is frightening. These days the packaging can be more time consuming than the product.

The stages of a new launch include:-

Market research

Concept development sample production

Discussion and refinement

Resubmit revised samples (again and again)

Packaging requirements - design/artwork etc.

Technical specifications -

ingredients/nutritional information/shelf life etc.

Product engineering for price

level agreement

Negotiation with ingredient suppliers

Panel testing

Customer acceptance

Pre-production trials

Final packaging design agreement

Final pre-production run

Launch date (if the supermarket remembers to list the product.)

With luck and a fair wind - 26 weeks.

Conclusion

Would we do it again? What are the main advantages and disadvantages of supplying supermarkets? If you are good at what you do and can identify the right niche for your products, the supermarkets can supply you with the opportunity to substantially accelerate the growth of your business but you must be aware of the pitfalls that may face you en route.

Disadvantages:

- Some loss of independence
- Reduced margins

Advantages:

- Enhanced
- Volumes

Q. What do you gain from your association with the Spice Girls? It's going to cost a lot of money to link Flisabeth the Chef's name with them What does that bring you?

A: I think it's a question of value. Last year the celebration cake market was reckoned to be worth £55 million. That has grown substantially, we believe, over the last 12 months. Our own sales of Premier League cakes have been considerable and would represent a huge percentage of that market if it had remained static. We believe that this sort of opportunity will actually help to grow the market.

The mother or wife of the football fan is buying the Arsenal cake or the Manchester United cake. Now the young girls are helping extend that market. But yes, the Spice Girls are getting paid a lot of money for it.