Growing the success of Irish food & horticulture
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BACKGROUND & RESEARCH OBJECTIVES

Report Objectives

Retailers in Ireland and the UK are essential to the success of Irish food and beverage suppliers. In order to help drive future competitive advantage for the Irish food and beverage industry, a deep understanding of the key grocery retail trends and changing retail dynamics is required to prepare for the future.

The objective of this report is to answer the question “What does the future hold for the Irish and UK Retail Landscape?”

This report provides an in-depth forecast of the food and beverage retail environment in Ireland and the UK in the next 3–5 years and provides critical insights into how Irish producers can achieve competitive advantage. The report provides:

• A vision and understanding of the grocery retail environment and expected changes
• Expansion, contraction or consolidation of retailers and the effect on Irish suppliers
• Drivers, scenarios and conditions that will impact on the retail environment
• Strategies that traditional retailers and discounters have in place to develop growth
• Supply chain implications for retailers
• Opportunities for Irish retailers to expand their share of shelf in retailers in Ireland and the UK

Report Overview

Retail Markets Today and Tomorrow in Ireland and UK

This report provides a detailed projection of a series of key trends that will materially impact Irish food and drinks suppliers. The report illuminates developments in the following areas over the next 3-5 years and is structured as follows:

1. State of the Grocery Retail Industry
2. Retailer Expansion Plans
3. Technologies for Channel Expansion
4. Private Label vs. Branded
5. Supply Chain Advancements
6. Retailer Perspective on Product Innovation
7. Trends in Promotions
8. Implications for Irish Producers

Currency used is € using exchange rate at May 2011 of 1€ = $1.42, 1€ = £0.87
Methodology

The report was developed using a combination of secondary desk research and primary qualitative research.

Secondary Desk Research

During the desk research phase a variety of publications were sourced and analysed. Rigorous analysis of socio, political and economic data from reports and white papers from governments, research institutions and annual reports from key retail sector organisations was conducted. These are referenced below:

Selected Bibliography: Desk Research

- Building on Success, IGD
- Full Year Results 2010/2011, Marks & Spencer
- Pathways for Growth, Bord Bia
- Where Britain Shops 2010, Verdict
- UK Food & Grocery Retailers 2010, Verdict
- Food Retailing, November 2010, Mintel
- Food Harvest 2020, Dept. of Agriculture, Fisheries and Food
- European Food Retail, Barclays Capital
- UK Retail Futures 2012: Food & Grocery, Verdict
- UK e-Retail Grocery Retailers 2010, Verdict
- Future of Retail 2010, PSFK
- Retail Industry Global Report 2010, IMAP Retail
- Sustainability Trends in European Retail, 2009, Forum for the Future
- Retail Futures, Forum for the Future
- Food 2030, Defra
- UK Food Industry 2010, Keynote
- UK Market Forecasts: Food Catering & Drink Market 2010, Keynote
- Planet Retail 2010
- Annual Report 2010 Tesco

Selected Qualitative Interviews

As part of the qualitative research, key figures in the retail and food sectors of Ireland and UK were interviewed for their insights. Interviews were conducted with high-ranking trade body representatives, CEOs of food retailers and distributors, food sector academics and journalists as well as product-innovation experts, FMCG industry experts and packaging experts. SCB conducted a combination of telephone and face-to-face interviews from over 30 organisations. Each interview lasted between 15 – 60 minutes. A breakdown of the profile of respondents is illustrated in the table below.

The interviews were conducted with executives from a diverse range of organisations including:

- Allied Irish Bank
- Anglo Beef Processors
- Association of Convenience Stores
- Barclays
- Check Out Magazine
- Dawns Meats
- Flahavans
- Irish Dairy Board
- Jeroboams
- Kepak Foods
- Marks & Spencer
- Merchants
- One Stop Convenience Stores
- Partridges
- Planet Organic
- Retail Excellence Ireland
- RG Data Ireland
- Tennant and Ruttle
- Tesco
- Trinity College
- Utilyx
- Waitrose

Profile Breakdown of Respondent

<table>
<thead>
<tr>
<th>TYPE OF RESPONDENT</th>
<th>NO. OF INTERVIEWS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food Retailers</td>
<td>15</td>
</tr>
<tr>
<td>Media</td>
<td>2</td>
</tr>
<tr>
<td>Producers</td>
<td>7</td>
</tr>
<tr>
<td>Financial</td>
<td>3</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
</tr>
</tbody>
</table>

About SCB Partners

This report has been produced by SCB Partners; an international trend-based marketing insights consultancy specialising in providing critical business learnings for some of the world’s major blue chip companies. SCB specialises in consumer insights, research analysis, innovations, marketing and brand strategies.
State of the Grocery Retail Industry

Summary Overview
Both the Irish and the UK retail markets are both set to expand in 3-5 years time, with Irish food retail growing at an average of 1% a year and UK food retail growing at an average 2.8% per year through 2014. The grocery retail industry in Ireland is expected to return to previous growth levels as the Irish economy recovers, while the UK will expand at a steady rate.

A degree of convergence of the Irish and the UK retail markets is expected, as retailers look to streamline costs and create areas of mutual benefit.

In Ireland, the environment has been difficult for domestic producers. Such convergence, as UK retailers such as Tesco move towards its UK supply network will compound this unless the producers are active in their business to the brand against UK suppliers.

As in the UK, merger activity is more likely to be in the area of acquisition to expand into the convenience sector.

Food Retail Sales Projections
Total Irish food retail sales in Ireland have recently been in decline, from a high of €11,398 million in 2007 declining to €10,370 million in 2010. However, sales’ projections to 2014 look positive, with growth of 3.91% projected to be achieved by 2014 - creating new opportunities for Irish producers.

Food retail sales in the UK are expected to achieve CAGR of 2.8% over the next 4 years. Food retail sales in the UK for 2010 were estimated at £129,260 million, and are predicted to reach £144,511 million by 2014.

All Food Retail Sales 2007 - 2015

<table>
<thead>
<tr>
<th></th>
<th>Republic of Ireland</th>
<th>United Kingdom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value</td>
<td>Index</td>
<td>% Annual Change</td>
</tr>
<tr>
<td>2007</td>
<td>€11,398 m</td>
<td>116</td>
</tr>
<tr>
<td>2008</td>
<td>€11,204 m</td>
<td>114</td>
</tr>
<tr>
<td>2009</td>
<td>€10,602 m</td>
<td>108</td>
</tr>
<tr>
<td>2010 (est)</td>
<td>€10,370 m</td>
<td>106</td>
</tr>
<tr>
<td>2011 (fore)</td>
<td>€10,392 m</td>
<td>106</td>
</tr>
<tr>
<td>2012 (pro)</td>
<td>€10,492 m</td>
<td>107</td>
</tr>
<tr>
<td>2013 (pro)</td>
<td>€10,728 m</td>
<td>110</td>
</tr>
<tr>
<td>2014 (pro)</td>
<td>€10,776 m</td>
<td>110</td>
</tr>
<tr>
<td>2015 (pro)</td>
<td>€10,823 m</td>
<td>111</td>
</tr>
</tbody>
</table>

Source: Mintel 2010

"As today, retailers will need to provide extraordinary good value. Whatever happens to the economy, people are still going be in the market for a treat, but only at the right price."

Head of Food – Major Multiple

"The concept of the weekly grocery shop is ‘past its sell by date. The younger generation are performing the shopping equivalent of grazing and want more ready-made or easier to eat food than ever before.’"

Academic, Trinity College

Head of Food – Major Multiple

"As today, retailers will need to provide extraordinary good value. Whatever happens to the economy, people are still going be in the market for a treat, but only at the right price."

Academic, Trinity College
Convergence of Irish and UK Retail Markets

The cultural and commercial ties between Ireland and the UK stretch back centuries, and the next five years will see increasing convergence of the two markets from the perspective of major players within the grocery sector, with a growing number using a singular UK and Irish strategy.

Today, the UK is Ireland’s largest single trading partner, accounting for €13.4bn of Irish exports (14% of total) and €13.7bn of Ireland’s imports (30% of total). UK trade with Ireland exceeds the total UK trade with Brazil, Russia, India and China and at €2.4bn; the Irish market consumes more UK produced food and drink than any other country. The economic figures then point to the logic of greater convergence.

Buy British, Buy Local

“Buy British” campaigns have benefited Ireland over other countries in the European Continent. While the “Buy British” campaigns in the UK have had considerable success in steering consumer spending towards home-produced foods, many UK consumers view Irish food to be practically local, allowing Irish producers a sizeable advantage over imports from Continental competitors.

There is a potential paradox for suppliers providing produce with provenance and quality. This usually has a price point attached to it which could make such produce hard to compete with other UK produced foods being sold under “Buy British” banners. Combine this with downward price pressure from the major UK retailers, and Irish producers will need to plan carefully their strategy and pricing. Irish suppliers will need a method to overcome the power of the multiples. Suppliers should play a very powerful role in the future of Irish exports - focusing on value and not just price will be pre-requisite.

Impact of Tesco

The impact of Tesco (which currently commands 35% of the Irish retail market) cannot be under estimated. Tesco is looking to synergise product offerings between the UK and Ireland; suppliers will be forced to follow suit.

Advancements in logistics and supply chain technology will allow companies to have one main office, one supply chain and one product stream which service both countries.

This streamlining poses both opportunities and challenges for food producers. Viewing the UK as part of the Irish market means Irish producers will have a 65-million strong market of consumers to sell to. However, the domination of the UK retail sector by the Big Four supermarkets and their propensity to stock fewer products across all of their stores means that to gain a foothold in the enlarged market, the scale of Irish food production not only needs to be expanded but also differentiated. Being regarded as local in “Buy British” campaigns in UK stores may not be enough to compensate for UK retailers selling more UK produce in Irish stores. At present, the risk of not gaining a foothold in the UK market is that Tesco’s product synergies will cut Irish producers out of Tesco’s share of the domestic market. If Walmart were to enter the Irish market, they could be expected to be at least as aggressive as Tesco in terms of range synergies between the two countries.

Mergers & Acquisitions in Retail

The degree of consolidation in the Irish and UK retail sectors, as well as competition law, indicate that there will be limited merger and acquisition activity in either Irish or the UK markets in the next 3-5 years. Weaker independent retailers, for example, are the most likely takeover candidates.

Mature Markets

Both the Irish and UK retail markets are considered very mature, and thus, growth in the retail sectors is unlikely to outstrip that of the wider economy. Moreover, both markets are dominated by a limited number of very entrenched players. Taken together, these factors mean any M&A would be very expensive, followed by slow growth. Combining this fact with the uncertain economic outlook makes it clear that neither the Irish nor UK markets represent obviously good investment opportunities in the short to medium term.

Competition Law

It is unlikely that competition regulators would give the go-ahead for further consolidation in the retail sector given that 80% of the Irish and UK markets are already controlled by each country’s respective Big Four.

The only scenario likely to alter the above dynamic is if a retailer were struggling financially. In such a situation, the reduced cost of a takeover might render the firm an attractive proposition, while competition authorities would likely waive the merger through in order to protect jobs. The model here is the Lloyds TSB / HBOS banking merger of 2008 which, under normal circumstances would not have been cleared by authorities but in order to protect jobs was allowed to proceed.

M&A Rumours

Due to mature markets and competition law M&A activity is limited. In both UK and Ireland, the key reason for acquisition would be for larger retailers to expand into the convenience sector.

Iceland: Iceland is the only supermarket chain with an immediately uncertain future. This chilled foods chain is 67% owned by the troubled Icelandic bank Landsbanki, which in turn is owned by the Icelandic government. As of February 2011, Landsbanki has signalled its intention to sell its stake in the frozen foods retailer. As of May 2011, Momsens had shown interest in acquiring the stake as a way of acquiring property to enter into the convenience sector. Iceland has 682 outlets, making it a small player relative to the competition. Larger rivals might spy potential efficiency savings through integration into a larger supply and distribution chain, but it is more likely to remain an independent chain.

Nisa: The future of symbol group Nisa is also uncertain. Analysts are particularly interested to see whether Costcutter’s new owner Bibby Line renews its order contract with Nisa in 2014, when the present arrangement ends. Were Bibby Line to take its business elsewhere, Nisa would lose 40% of its turnover at stake. It is believed there is a good chance of this happening after Nisa awarded DHL, a seven-year distribution contract instead of Bibby Line.

Dunnes: In Ireland, there has been much speculation about the future of Dunnes. At the time of writing despite ongoing concerns about the future of this retailer, there are no specific and credible takeover rumours.
The UK food and grocery spend was valued at €173.42bn in 2010, representing 52.7% of total retail sales. By 2015, the total UK food and grocery spend is estimated to reach €210.11bn, with average annual growth projected to be 3.9%, offering large growth potential for Irish producers exporting into the UK.

Nearly 50% of this growth will come from the convenience and online channels alone, with convenience in particular being the battleground between the major retailers over the next five years. As the major retailers pursue expansions with store enlargements and new openings they will continue to gain market share from independent and specialty retailers. Furthermore, online retail is expected to double in value from €5.52bn in 2010 to €10.93bn by 2015.

In Ireland, the retail format breakdown is similar to the UK by category, with the exception of hypermarkets. As planning permission is much stricter in Ireland than in the UK, the hypermarket format is less prevalent. The other major difference between the UK and Ireland is the proportion of independent stores that dominate Ireland’s convenience sector. While convenience will grow, the share held by independents is declining.

Irish and UK producers will be expected to create products and packing sizes designed for channel-specific needs and the different store formats.

### Supermarkets

Of a total 91,509 food retail stores in the UK, 7,970 of these are classified as supermarkets, hypermarkets or superstores. Ranging between 3,000 and 60,000 sq ft, these large format stores represent approximately 2/3 of total food retail sales (amounting to €124 billion in 2010) and thus decreasing the number of viable retail partners for Irish exporters.

Despite representing the greatest portion of sales, the available space required to open stores of such size is finite and therefore such large store formats will not be the primary avenue for expansion in the future. Major retailers will compete for planning commission rights to build in the limited number of spaces where such large stores are possible, and focus on enlarging their existing supermarkets.

At the moment discounters Aldi and Lidl are expanding their presence in the Irish market and growing.

### Breakdown of Grocery Retail Formats in the UK

<table>
<thead>
<tr>
<th>Format</th>
<th>Stores</th>
<th>Sq ft</th>
<th>Sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK Grocery Retail</td>
<td>91,509</td>
<td>191.3m</td>
<td>€150.8bn</td>
</tr>
<tr>
<td>Convenience Retailing</td>
<td>48,289</td>
<td>53.5m</td>
<td>€32.1bn</td>
</tr>
<tr>
<td>Traditional Retail</td>
<td>35,250</td>
<td>28.7m</td>
<td>€6.1bn</td>
</tr>
<tr>
<td>Hypermarkets, Supermarkets &amp; Superstores</td>
<td>7,970</td>
<td>109.1m</td>
<td>€107.8bn</td>
</tr>
<tr>
<td>Online</td>
<td>101</td>
<td>0.9m</td>
<td>€4.8bn</td>
</tr>
<tr>
<td>Co-ops</td>
<td>2,448</td>
<td>4.8m</td>
<td>€3.8bn</td>
</tr>
<tr>
<td>Multiples</td>
<td>2,912</td>
<td>5.9m</td>
<td>€5.0bn</td>
</tr>
<tr>
<td>Symbol Groups</td>
<td>16,072</td>
<td>19.2m</td>
<td>€12.1bn</td>
</tr>
<tr>
<td>Non Affiliated</td>
<td>20,351</td>
<td>18.1m</td>
<td>€6.9bn</td>
</tr>
<tr>
<td>Forecourts</td>
<td>6,506</td>
<td>5.5m</td>
<td>€4.3bn</td>
</tr>
<tr>
<td>Discounters</td>
<td>1,240</td>
<td>11.2m</td>
<td>€6.4bn</td>
</tr>
<tr>
<td>Multiples</td>
<td>5,224</td>
<td>85.1m</td>
<td>€94.5bn</td>
</tr>
<tr>
<td>Co-ops</td>
<td>104</td>
<td>0.9m</td>
<td>€0.6bn</td>
</tr>
</tbody>
</table>

Source: IGD Research, 2010

Irish data not available
Convenience

Generating €35.5bn in sales in the 12 months to April 2010, the convenience channel now represents 20.5% of the total UK food and grocery market. With predicted growth rate of 5.8% over the next five years, convenience is growing considerably faster than the retail market as a whole, and will represent 25% of the UK grocery and food market by 2016. Irish exporters that tailor their products to the needs of convenience retail (via NPD, packaging and logistics) will benefit.

In 3-5 years convenience formats will grow taking share from supermarkets for the following reasons:

• Growing consumer need for quick, easy-access shops
• Retailer focus on convenience sites, due to planning permission restrictions and finite supermarket spaces
• Consumers increasingly shifting the ‘weekly shop’ online

As major retailers focus on smaller formats, the big four will continue to take sales from independents, forcing these smaller retailers out of the market. Notably, growth in convenience is occurring in the face of store closures: as of April 2010 there were 48,410 convenience stores in the UK, representing a decrease of 0.5% over the previous 12 months. As the multiples continue to expand aggressively into the channel with sophisticated larger-sized convenience stores, it is predicted that the absolute number of overall stores will continue to decrease.

Over 1,000 new convenience multiples are forecast to have opened by April 2015 and it is predicted that the non-affiliated independents will suffer most, with their store numbers already declining 5% year on year to April 2010. Amongst affiliated independents, the buying power of their symbol groups offers reasonable insulation against competition from the multiples, while despite the USP of independent forecourts their store numbers continue to decline due to competition from both supermarkets and symbol groups.

It is worth noting, however, that even as their store numbers continue to fall, non-affiliated independents still account for 41.3% of all UK convenience stores in 2011, and with sales of €7.8bn they will remain an important part of the retail mix. These retailers offer small and new Irish producers further opportunities, as they try to keep the range and quality of their stock competitive with the likes of Tesco Express and Sainsbury’s Local.

Online

Online grocery retailing in the UK is projected to double in value from €5.8bn to €10.9bn in 2015 fuelled by technological developments, greater consumer confidence in online retail generally and significant improvements in delivery/collection methods and accuracy.

Although online sales represented only 2% of total grocery sales in the UK in 2008, it is predicted that by 2015 this will increase to 5.4%. Currently most popular amongst younger consumers, families and more affluent consumers, online shopping will become increasingly widespread among the mainstream population.

In Ireland, online grocery retail is currently held back by a relatively low broadband penetration and logistic issues. However key market players such as Tesco are keen to expand their online operations in Ireland over the next 5 years.

Specialty

Specialty retailers in the UK represented 8.0% of the market share in food retail in 2009, including greengrocers, butchers, fishmongers, farm shops, gourmet shops and department store food halls.

However, as major retailers focus on expanding their premium own-brand offerings as well as stocking luxury items to encourage customer up-sell, they are expected to further consolidate the market and gain further share percentage.

One area of growth for specialty retailers is an increased consumer interest in local suppliers as a consequence of the trend for localisation.

1 Based on Datamonitor which uses a different classification system to IGD
# Challenges within the UK and Irish Retail Markets

## Consumer Spending

The ongoing recession both in Europe and internationally continues to impact consumer spending levels in relation to food and has been particularly evident in the ongoing shift to value offerings.

While any turnaround in consumer food prices is welcome, the ongoing promotional pressures on manufacturers as retailers seek to maintain market share continued to impact on average returns across most categories during 2010. With global food commodity prices increasing strongly over recent months, it is expected that consumer prices are likely to come under renewed pressure to increase in 2011.

## Changing Consumer Trends

The perception of ‘value’ has changed amongst UK and Irish consumers, largely due to the recent recession and increasing strength of private label brands. Consumers have been content to down trade to lower-priced brands, often store economy ranges, safe in the knowledge that they can find high-quality produce in the value end of the market.

Brand loyalty has diminished somewhat, as consumers sought more for their money, although not simply the cheapest option. Irish producers can reposition their product portfolios where necessary to address this issue and exploit areas for growth.

- Some consumers have needed to drastically reduce their grocery spend, and have looked for the lowest possible prices for food and drink.
- For others, the priority has been more about controlling spend through making trade-offs; foregoing indulgent spend on food and drink.
- Consumers have now come to expect deals. They are much more savvy and aware and look for (and expect) value, even in premium products and ranges.

Findings from Bord Bia’s ‘Feeling the Pinch’ report summarises prevailing consumer behaviour in times of economic uncertainty.

## UK Retail Demand

Food sector sales for the UK retail markets are expected to be considerably more stable than in Ireland and follow a linear path until 2015.

However, there are still concerns about the state of the consumer position in the UK. While the UK market is growing, several factors are hampering growth rate:

- Wages growth is averaging under 2%, while inflation (the RPI) is approaching 5%. This means incomes are being squeezed already. Consumers have financed growth in spending by saving less.
- The VAT increase to 20% from January 2011
- The frontloading of spending cuts to the first two years of the current parliament
- The inevitable rise in interest rates and how this will impact house owners already squeezed due to the above reasons.

## State of The Grocery Retail Industry

Findings from Bord Bia’s ‘Feeling the Pinch’ report summarises prevailing consumer behaviour in times of economic uncertainty.
How Irish Food is Perceived
At the Moment

In both Ireland and the UK, the reputation of Irish produce is a strong one synonymous with high standards, good quality and trustworthiness. Using this position as a foundation, there is significant potential for Irish producers to build an even stronger brand around Irish food and drink by adding a more distinctive identity beyond being Irish.

Insights from Ireland

In Ireland itself, not surprisingly, domestic retailers are invariably positive about Irish produce but there is a belief that suppliers can do more to build their brand around the provenance of their produce. Simply stating that the produce is either local or Irish will not always be sufficient. More information about the locality of where the food is produced and packaged can only strengthen brands. From the Irish consumer standpoint, clarity around the definition of what local means will be important. As larger non-domestic retailers start selling produce labelled ‘locally made’ this potentially could mean it’s produced in the UK. So a very clear labelling of regional provenance will be vital.

Having such an approach to branding and labelling will also help Irish producers with retailers and consumers in the UK. UK retailers now regularly emphasise the regional provenance of products due to the saturation of the ‘buy British’ banner, and the increasing knowledge shown by customers. By adopting a branding approach that taps into regional aspects, Irish produce will become more aspirational amongst UK consumers and will also differentiate it from other ‘local’ produce. Differentiation of produce, to allow it stand out from the competition will be essential.

Insights from the UK

The national Irish brand does have considerable advantage over other non-UK produced food owing to the natural affinity UK consumers have with Irish culture. Suppliers need to continue to build on these positive associations and assets through innovation and NPD, while continuing to emphasise the Irish brand personality.

UK retailers perceive Irish produce to be quasi-local, respectable, safe and of high quality, but without the robust ‘personality’ as garnered by the likes of French or Italian food and drink. This puts Irish suppliers in a strong position to be able to build upon the ‘face’ of Irish produce — again emphasising the key market characteristics and regional assets when pitching for export opportunities. A strong PR campaign and media seeding of Irish produce would without doubt help this process.

Building on the Power of Irish Provenance

In the Irish and UK markets, the reputation of Irish produce and brands remains strong and is associated with trusted quality and high standards in categories. ‘buy Irish’ positioning has proven extremely popular in the Irish market, but the opportunity remains to differentiate the provenance of Irish dairy, meat and fresh produce in the UK further.

Irish producers have the opportunity to raise the identity of Irish products in the UK and beyond, through emphasising the traditional production techniques associated with the country.

Irish Personality Building

The perception of Irish food, especially dairy, meat and fresh produce, in the UK is of safe, high-quality food. Irish brands could further build on this by adding a clear personality and narrative to complement these attributes. Media personalities, such as celebrity chefs or respected food critics, and champions of Irish produce would help Irish food form a stronger identity. Such personality building will lead to produce becoming aspirational for some UK consumers.

Regional Provenance

While many producers do talk about provenance to a degree, there is room for them to be more specific and be even more confident about the ‘personality’ of the meat, dairy or fresh produce they are selling. For example, in France, Spain and Italy it is common to reference the region at least as prominently as the country and this helps to underpin these markets as diverse culinary nations. Ultimately, consumers find it easier to associate lamb with the hilly fields of Connaught than simply with ‘Ireland’. Already Irish beef is, in some instances, being referred to as Irish Angus or Irish Hereford and this does give the meat increased identity. Added personality would come, for example, by giving information about the producers themselves; the farm, the family, history of the herd or breed, or variety and benefits of fruit and vegetables being sold.
Retailer Expansion Plans

“The multiples are encouraging people to switch to private label and consumers are far more receptive to this given the economic backdrop. The pressure on branded manufacturers will only continue.”
MD – Major Producer

“Supermarkets based outside of the city provide ‘destination’ shopping for the average consumer – a once a week trip. Convenience stores have the appeal of being local however tend to be expensive so a combination of convenience and a reputation for value will create a new dominant force in the retail market in Ireland.”
Brand Manager – Major Producer

“Tesco or Sainsbury convenience stores stock half as many lines as independent convenience, so there will have to be significant rationalisation amongst the independents.”
CEO – Trade Body

Summary Overview

Retailers are projecting considerable growth over the next five years heavily driven by the multiples, with their particular focus on convenience and online channels. In addition, the majority of major retailers are looking overseas, either to capture growth in emerging markets, or to evaluate re-entering Continental European markets.

Changing consumer lifestyles will require more convenience options, so retailers will react to this trend by opening more smaller and accessible branches. Irish suppliers and producers will need to prioritise these trends in relation to their product and packaging strategies. Although international markets are already a strong source of revenue for some major food retailers, this trend looks set to continue. Key UK players will continue aggressive expansion abroad (especially in emerging economies such as China and India), and other more cautious retailers will consider re-entering foreign markets.

Irish producers must look to exploit every potential export opportunity offered by UK retailers, such as tailoring products to new markets or investing in logistics that accommodate the long distance export of goods to the likes of China and India. Those producers with strong relationships are likely to benefit, growing with the retailers.
Expansion Plans

With food retailers’ sales expected to reach €166.2 billion by 2015 in the UK alone, competition for market share amongst the key players is intense. Major retailers will continue to make gains from smaller chains and independents through store enlargements and openings in new areas. In the UK the key battle for space will be played out in the convenience format market, with Irish producers able to tailor their NPD to the specific needs of the convenience sector. Consumer spending in this sector will increase at 5.8% per year compared to 3.9% in grocery retail generally, internationally, emerging markets such as India and China will become key targets for expansion as retailers seek to diversify their portfolio and increase growth rates.

Major Multiples Domestic Expansion

Food retail spending in the UK is expected to grow at an average annual rate of 3.9% over the next five years, reaching a total of €210 billion by 2015. The major retailers are meeting this demand through store enlargements and new branches, with the big four targeting a combined 5 million square feet of new space per year, equalling one store per working day. Although hypermarkets, supermarkets and superstores account for 2/3 of grocery retail profit, finite geographic space, planning permission restrictions and community backlash are making such larger formats difficult to pursue. With intensifying competition for space in an increasingly saturated market, retailers are being forced to look for new solutions.

In addition to the convenience sector, the lunchtime sandwich market is also poised to become a new battle ground for the major supermarkets with Morrisons and Asda also considering smaller format stores to follow the Sainsbury’s Fresh Kitchen roll-out, open its 4th largest branch in Newton Mearns this year.

Where the Big Retailers Dominate

• **Tesco**: With a major international push expected in the next few years, Tesco’s national sales are expected to account for a smaller percentage of profits. But with plans to open 2.4 million sq ft in 2011, amounting to 292 new stores, the retailer is maintaining a steady pace of growth in Ireland and the UK nonetheless. In Ireland, Tesco has faced a tough couple of years bolstering its “Irish” sales through its presence in Northern Ireland, close to the border.

• **Waitrose**: A surge of 250 new branch openings is planned for 2011, followed by an additional 40 per year up to 2015. Scotland represents a significant focus for the retailer, which will open its 4th largest branch in Newton Mearns this year.

• **Asda**: Asda’s recent acquisition of Netto represents a major new focus for the company on smaller store formats, and much of its expansion in the near future will focus on the development of these outlets. Nevertheless, plans to build eighty 20,000 square foot supermarkets by 2015 indicate that Asda will continue to develop the larger format stores for which it is best known. Though much discussion has been made in recent years about expansion into the Irish market, no official plans are currently acknowledged by Asda.

• **Iceland**: After closing all of its Irish branches in 2005, Iceland is planning to re-establish itself with a market presence in Ireland with 40 new stores by 2014.

• **Sainsbury’s**: By late 2011 Sainsbury’s hopes to increase its gross space by 15%, with a particular focus on carbon neutral expansions and greener store formats that reduce energy consumption. The retailer is also testing a sandwich shop format named Fresh Kitchen, for potential roll-out across 200 UK sites.

• **Morrison’s**: Expansion plans focus on the small convenience store format of less than 3,000 ft, with a total target of 1.5 million square feet of new space by 2013. It has also expressed interest in acquiring a stake in Iceland.
**Major Convenience Expansion**

The UK’s convenience sector will grow faster than grocery retail in general, and will total €36.9 billion in five years according to recent industry studies. Changing consumer lifestyles are driving retailers to increase their number of smaller, accessible branches. Irish producers will need to prioritise these trends in relation to NPD and packaging strategies.

However, as the number of smaller independent chains falls due to acquisitions by multiples, buy-out opportunities for the multiples will diminish. Over the next five years multiples to open new stores on sites not already housing convenience stores.

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**Contributing Factors To Growth of Convenience In Next 5 Years**

- Contraction in the number of independent convenience stores in operation
- Increasing presence of ‘Big 4’ retailers and other brands in the sector
- Growing fuel prices will encourage shoppers to walk rather than drive to stores
- Rapid expansion of new entrants (largely main grocery retail players) helping to reduce overall decline
- Working mothers’ need for convenience options to balance work commitments with family needs
- On-the-go breakfast, at desk lunch, and snacks to replace missed home meals
- Increase of ‘top-up’ shopping trips to supplement primary (often weekly) grocery visit or online shop
- Operators from outside the sector developing broader convenience based formats / offerings
- Urbanisation, population density in cities and increased use of public transportation
- Improvement of the convenience offering, presenting consumers with viable convenience alternatives to superstores
International Expansion

International markets are already a strong source of revenue for some major food retailers, and the future is likely to see continuation of this trend. Irish producers must look to exploit every potential export opportunity offered by UK retailers, such as tailoring products to new markets or investing in logistics that accommodate the long distance export of goods to the likes of China and India.

Diversification is set to be a leading trend, as global chains move into key areas and new retailers join the race for foreign expansion. China and India present themselves as two key targets for potential growth, with high levels of investment and consumers seeking to emulate Western lifestyle. As retailers expand internationally, producers with strong relationships are likely to benefit, growing with the retailers.

**Tesco:** With a strong presence on three continents, Tesco leads the way in global expansion. International sales account for 22% of the group’s profit, with expectations that this will reach 43% by 2015. With its highest revenue coming from South Korea, Thailand and Ireland, Tesco sees Asia as a long-term investment and will continue to expand its number of stores there. In China specifically, Tesco’s approach involves building bespoke shopping malls outside the main cities and fitting them with hypermarkets. Plans for the future include expansion into India, with its first cash and carry store opening in 2011. Tesco holds positions in several profitable markets in Eastern Europe from which it is likely to expand into neighbouring countries, including Hungary, Slovakia, Poland and the Czech Republic.

**Sainsbury’s:** Recent market visits to Shanghai and public statements of interest regarding India indicate that Sainsbury’s will also be joining the battle for Asia. Past failures in foreign markets such as the U.S. have deterred Sainsbury’s from international expansion until recently, but strong market performance has led to renewed interest.

**Waitrose:** With two stores in U.A.E and one recently opened in Bahrain, physical international presence is limited to the Middle East. Waitrose is infiltrating other markets through its products, developing recognized brand status in places such as the U.S. and Canada through cooperation with other stockists.

**Asda:** Asda is currently investigating the development of six new private label brands specifically for international circulation, and already has the perfect launch platform through parent company Walmart. Currently there are no plans to expand physically with new foreign stores, with a focus on national growth.

**Marks & Spencer:** A strategy prioritizing international expansion is underway at Marks & Spencer, with India and China at the core of future growth. The retailer is also likely to re-open stores in continental Europe after having failed in that market a decade ago.
Summary Overview

Retailers will seek to take advantage of the increased consumer interest in the convenience of online shopping, as well as improved connectivity available to consumers through smartphone applications and more engaging online experiences. As consumers’ trust of online formats develops, retailers will look for ways to amplify consumer spend via their online and mobile platforms as well as remain visible and relevant in their customers’ day-to-day lives.

The growth of broadband, mobile commerce and related applications as well as use of social networks and crowd shopping sites will enable retailers know more about customers. Of equal importance will be the ability for customers to have access to all sorts of information about retailers and the products they stock and sell. These new channels of purchasing and dialogue will mean astute suppliers can sell direct to its customers. The growth of mobile apps means that customers will use their mobiles in the shops and base purchasing decisions on results generated by the apps.

Home delivery from m-commerce or online shopping will continue to grow in popularity which means that the retailers will continue to evolve the logistics in the supply chain to deliver best-in-class order fulfillment. At the same time, Irish producers, will need to increase efficiency in their supply chain to be applicable for online retail platforms.

In stores, the automation trend of the past few years will continue to strengthen, particularly in the convenience channel, as retailers look to cut down on overheads and streamline the paying process.
Developed Online Shopping Experience

The UK accounted for 30% of all European online sales in 2010, and is expected to grow by 14% in 2011. Brands using social networks and crowd shopping sites (such as Groupon) to provide shoppers with special offers, are not only increasing revenue from advertising and click through, but also learning more about their customers via data capture. Thus they can expand their relationship and loyalty with consumers. This is a trend that Irish brands and producers (especially small or new companies) can utilise to gain competitive advantage, and to increase brand loyalty.

Online shopping pioneers include:

- **Groupon**: American success story Groupon has taken the UK by storm. The coupon site has saved its 50 million users £851 million in its first two years through product discounts. Customers get heavily discounted deals at their local restaurants and shops, and the local merchants get an influx of new customers. This format could suit new Irish brands looking to increase awareness amongst consumers.

- **Makro**: Wholesaler Makro had a ‘Tweet a Price’ campaign, allowing customers on Twitter to decide the price of selected products. The discount applied was determined by the number of re-tweets that each product got.

- **Debenhams**: The multi-product retailer introduced its own online TV format that can be also viewed via smart phones and YouTube. By using the website’s click and buy system, viewers can purchase items featured on the channel as they watch.

- **Superquinn**: The Irish retailer signed a deal with performance marketing company TradeDoubler in late 2010 to strengthen its online business in 2011 and beyond.

- **Mysupermarket.com**: Online comparison websites such as mysupermarket.com give customers instant access to price and content comparisons and are an excellent platform for switching brands or retailers, bolstered by designated pages for top offers and personalised recommendations following regular use.

- **M&S Social Media Success**: Marks & Spencer has the largest twitter following amongst major food retailers, and over three times as many Facebook fans as second place Sainsbury’s. Regular updates from the company engage customers in a 2-way conversation and help to publicise promotions taking place in store.

- **TV Shopping Channels**: QVC has sourced locally-produced products for some programmes. For example, Fraser Doherty the young founder of SuperJam appeared on the channel. QVC looks for food products that are unique and have a story behind them.

Both suppliers and retailers will have to adapt all new channels of purchasing and dialogue with customers. Prices will be increasingly transparent and thus competitive.

There will be opportunities for marketing: astute suppliers will be able to sell direct to consumers.

As Ireland develops its broadband infrastructure Irish products need to get up to speed with all new technologies so that they can take advantage of the benefits afforded. UK retailers and their established suppliers have had some time advantage.
M-Commerce

Though still in its infancy, the future of digital shopping is quickly becoming a collection of mobile retail, peer-to-peer lending, stored value cards, micro-philanthropy and private currencies.

- **M-Commerce sales in the UK are expected to more than double in the next three years.** In 2009, 2% of the British population used their mobile to shop online, while approximately one third had internet on their mobile device. (Source: Global Mobile and M-Commerce Trends 2011, Reportlinker)

- **75% of online retailers currently have a mobile strategy.** By 2015, the number should increase even more. As markets in Europe and the Middle East outpace the US, e-commerce will shift its market alignment to focus on different geographies . (Source: ABI Research, 2010.)

- As the number of tangible product sales increase through m-commerce, 2015 should see numbers move beyond 20% from 6% especially as mobile interfaces like eBay’s ‘app’ take hold. (Source: Mobile Marketing Association, 2010.)

Dozens of smart phone applications (such as Google Shopper) will allow consumers to look up a product by scanning it or typing in the bar code. The app then returns a list of prices for the same item at nearby stores or through online retailers.

Retailers will need to ensure that they enable the shopper to make purchases whenever and wherever they want, which means mobile site optimisation and mobile commerce channels cannot be ignored.

Consequently Irish producers will need to ensure that the pricing and product information of their products on these sites are correct (wrong information may lead a consumer to opt for a competitor brand) and that they have the customer service support in place.

GPS store locators, barcode scanners, loyalty points and shopping lists are all now becoming standard features on retailers’ apps, and eBay has recently launched a fashion app which uses augmented reality.

In the coming years, grocery sector retailers will use this technology to encourage sales by offering product and cooking suggestions via barcodes, product compatibility, and flash promotions.

- **Amazon:** Amazon recently announced that its mobile commerce revenue reached €1.15 billion in the last 12 months (worldwide) and predicted there will come a time when all retailers will have websites that are optimised for mobile use.

- **Tesco:** The UK’s first transactional barcode scanner for the iPhone was launched by Tesco at the end of 2010, enabling shoppers to scan any grocery item and add it to a home delivery order instantly.

- **Marks & Spencer:** The retailer entered the mobile e-commerce market at the end of 2010 via a new mobile site rather than an app. The new site (currently restricted to clothing, homeware and technology) is expected to cover grocery purchases as well if the launch proves successful.

- **Sainsbury / Nectar:** Sainsbury currently has two apps on the market. The Sainsbury’s app includes a store locator, a list of deals in store, news and personalised offers. The Nectar app is intended for people who shop in Sainsbury’s and Homebase and provides access to offers for more loyalty points.

- **Waitrose:** Much like the Sainsbury’s offering, this free brand app also provides shoppers with recipe suggestions and cross-selling product opportunities.
Rise of Food & Beverage Apps

In the Irish and UK grocery sectors, potentially transformative apps are already spreading, most originating from the US. These applications are still in their formative stage, but have the potential to change the way consumers think about food and shopping over the coming five years. Consumers are taking these technologies into the retail environment and basing purchasing decisions on results generated by the apps. Though many food apps are preoccupied with recipes and fine dining reviews, some offer very specific information liable to influence decisions made while shopping. Examples showing practical uses for new food app technology are shown below:

Implications

1. Producers will need to keep pace with technology trends as broadband penetration and use of mobile internet increases in Ireland. UK suppliers have had more recent experience of this as some retailers look to converge supply chains. Irish suppliers will need to be able to compete on this front and be prepared for new requirements around packaging and labelling for example.

2. Irish producers will have to think carefully about how they can capitalise on new opportunities presented by tech developments and the implications this could have on their own production and supply capabilities.

3. Given the transparency that the internet and mobile commerce affords, suppliers need to be aware that existing and potential customers will expect to be able to access accurate information about produce, ingredients, eco credentials, pricing etc, all at the touch of a button.

4. While retailers are actively using social media and apps to engage customers, Irish producers must actively consider how they can use these channels to build their own brands and following.

Smart Phone Apps:

Good Guide
The Good Guide provides shoppers with ethical ratings for thousands of products. These are based on a long list of health, environmental and social criteria using information in the public domain.

Scanavert
This allows consumers to set their own dietary preferences including allergies. It then warns them if a product is incompatible with these settings while shopping.

AUG
By scanning the barcode with the AUG App, shoppers can find how far the product has travelled to reach the store, the identity of the primary producer, whether the ingredients are in season and a historical record of prices.

CNET Scan and Shop
Allows you to scan a product barcode, access user reviews, compare prices from various retailers and order online.
Merger of Digital and Physical World

Retailers have to quickly respond to the ever-growing popularity in home delivery as the preferred choice of shopping for time-poor consumers. Logistics in the supply chain are being adapted to cope and deliver best-in-class order fulfillment operations. This expectation will also be passed on to Irish producers, who will need to increase efficiency in their supply chain to be applicable for online retail platforms.

Retailers are expanding with new depots dedicated to home shopping picking, and alternative collection options are being offered to the consumer such as Click & Collect and in-store digital ordering. Examples of recent leaders include:

- **Asda**: Asda’s expansion plans in home shopping are materialising with the opening of a second site in North London, dedicated to home shopping distribution. Asda is extending its reach by diversifying its offerings to include better ordering online, picking up in store facilities and efficient home delivery. Their new site will help to facilitate these services.

Asda’s dedicated Home Shopping Centre in Morley, near Leeds. Products ordered online are picked by 500 Asda employees and placed in totes ready for delivery. Two conveyor systems of 45 metres each use a combination of horizontal and inclined belt conveyors, roller conveyors and powered bends.

- **Tesco**: The first quarter of 2011 will see the completion of Tesco’s latest distribution centre in North London. The £23m investment will help the UK’s No1 supermarket to service its dot.com and convenience businesses. Tesco is also trialling a ‘Drive Thru Click & Collect’ service where shoppers have their groceries put into their car boot for them for a €2.3 charge, and is planning to offer collection from its vast network of convenience stores.

- **Dairy Crest**: Chilled dairy food supplier, Dairy Crest, has implemented Paragon Software Systems to help centralise its UK delivery scheduling. The automated routing technology makes for better transport planning, transforming logistic operations from a traditional method of stock-based deliveries to a web-based collaborative planning model.

- **Waitrose**: Transactions made online at home or at work can then be collected from the retailer avoiding the in-store experience. Waitrose has rolled out the concept to 21 new stores.

- **Boots**: In 2011, Boots is planning to open a drive through new store for food offerings and pharmacy items.

- **In Store Digital Order**: Asda is to trial the use of in-store ordering in three of its stores (Bradford, Glasshoughton and Hyde). Customers will be able to order goods from an in-store display or an online catalogue, with products then dispatched from a warehouse space on site. The Co-operative is now combining home delivery with the latest touch screen technology via digital touch screen kiosks that allow consumers to efficiently select a delivery time in store as they do their shopping.

Evolution of Customer / Retailer Touch Points

### The Legacy
- Customers experience a single type of touch-point.
- Retailers have a single type of touch point.

### The Reality
- Customer sees multiple touch-points acting independently.
- Retailer’s channel knowledge and operations exist in technical and functional silos.

### The Aspiration
- Customer sees multiple touch-points as part of the same brand.
- Retailers have a ‘single view of the customer’ but operate in functional silos.

### The Ideal
- Customers experience a brand, not a channel within a brand.
- Retailers leverage their ‘single view of the customer’ in coordinated and strategic ways.
New Technology
Retailers will continue to slowly upgrade their technology offering, with handheld IT devices and video touch points finding their way in-store over the next five years.

The automation trend of the past few years will continue to strengthen, particularly in the convenience channel, as retailers look to cut down on overheads and streamline the paying process as much as possible for customers through greater implementation of self-service check out and mobile point-of-sale systems.

In-Store Technology

Handheld Technology
Over the next five years handheld IT devices will increasingly be used by retail staff to better service the needs of customers as well as by customers themselves.

Video Touchpoints
Retailers are using the newest interface technology, such as multi-touch to provide fixed information points in store. These points can provide floor plans and other information in an interactive way for consumers.

Self Checkouts
US Pizzeria UNO has implemented mobile self checkouts in their restaurants, allowing diners to place orders and pay simultaneously minimizing waiting time and making orders more accurate.

Unmanned Kiosks: Wine Kiosk
Concept stores are currently testing new forms of automated food and beverage vending, complete with concierge advice that provides recommendations based on dining menus.

Personal Technology

Spontaneous Offers
Tesco’s future club card will instantly give shoppers special discounts, which appear on the card, based on a user’s previous baskets and shopping lists.

Location-Based Services
Location-based services have become even more powerful when they combine personalised and permission-based real-time notifications for rewards at local establishments.

Mobile Payment
Smart Phones will contain individual bank details and credit card information in a single device, allowing consumers to streamline their wallets.

Augmented Reality
Mobile augmented reality apps are increasing in popularity, the increased interest will lead to nearly 1.4 billion worldwide downloads by 2015.

Future Retail Formats

Experts Utility Stores
New formats will blend traditional convenience shopping with casual dining counters that provide fresh, ready-to-consume food and beverages, ensuring speed and quality are no longer mutually exclusive.

Hydroponics
With an increase in demand from the consumer for fresher, more local and sustainable produce it is unsurprising that hydroponics could play a major part in the look and feel of future supermarkets.

Ocado Future Fridge
Forecasting the potential for fridges to evolve into something truly cerebral, offering predictive, fully automated shopping altering the way we shop and eat forever.
Summary Overview

Retailers will increasingly use customised promotions and incentives, based on consumer data from loyalty cards and online shopping, enabling retailers to gain valuable consumer profiling insights. Influential media personalities; including celebrity chefs, amateur but influential food critics, bloggers and others, will impact initial store-stocking decisions; they may also develop promotional partnerships and relationships with retailers.

Retailer Promotions

Retailers continue to create new promotions and incentives (loyalty cards, collaborations with lifestyle brands, prizes) with which to maintain consumer loyalty while also gaining invaluable consumer profiling insights. This gives Irish producers the opportunity to provide retail partners with promotions, such as discounted products or brand relevant prices.

Retailers are also finding new ways to tap into new food and drink trends coming from the media, while also utilising these increasingly influential media personalities from celebrity chefs all the way through to amateur but influential food critics / bloggers. Irish brands also have the opportunity to gain insight from these new sources, and to seed product and favour amongst key personalities.

"About 18 months age Flahavans made a very conscious shift to dial up their Irish, locally sourced pedigree. They are 95% sourced locally."

Marketing Director – Food Body

"Producer’s marketing campaign. They need to have a launch campaign and ongoing communications. It is a factor when we take a product – it helps, but it’s not essential."

Marketing Director – Food Retailer

"Trends in Promotions

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Marketing Director – Food Retailer
Promotions will remain a major component of how retailers provide value to the consumer. Over the next five years, promotions will be more and more aggressive as retailers grapple with the nature of a mature market with little above-inflation growth. Brand bundling and co-promotions as well as tried and tested strategies such as coupons and loyalty-card schemes will be key components of retailers’ promotional offerings.

Examples of Retailer Promotions:

- **Tesco**: Tesco has offered a promotion on light bulbs, whereby each sale of energy-saving bulbs can be converted into air miles through the Clubcard rewards’ programme.

- **Loyalty Card Schemes**: The Big Clubcard Voucher Exchange promotion from Tesco offers Clubcard holders the chance to redeem their points at double value. It recently contributed to an 18% increase in voucher redemption compared with the previous year.

- **Sainsbury’s & Comic Relief**: For the annual charity drive Red Nose Day, Sainsbury’s is the sole food retailer stockist of the red noses, and thus features prominently in associated TV, print promotions and celebrity launches.

### Trends in Promotions

#### The New Influencers

Retail buyers continue to look to food writers, celebrity chefs, bloggers and consumer forums to keep abreast of consumer food trends. As consumers also look to these influencers for tips on tasty treats, recipes and ingredients, retailers and suppliers must align with consumer interests and influences.

Examples of New Influencers:

- **Olive Oil**: Between 1990 and 2010 there has been a 300% increase in olive oil imports in the UK. A key driver, apart from health benefits, has been the heavy use of olive oil by celebrity chefs on television.

- **Food Programming**: Between 1990 and 2010 there has been a 7,000% increase in the hours of food programming on television.

- **Big Fish Fight Week**: Aired on Channel 4 in the UK over a week, this series of programmes featuring Jamie Oliver, Heston Blumenthal and Gordon Ramsay was responsible for: a week-on-week 45% increase in sales of sardines, coley, brown crab, whiting and sprats at Tesco, Marks & Spencer’s largest ever weekly fish turnover and a 167% increase in the sale of pollock (shown in the programme as an alternative to cod) at Sainsbury’s.

- **Jamie Oliver**: The celebrity chef’s 2008 programme Fowl Dinners was an uncompromising look at the British poultry industry and was credited with a 50% increase in sales of free-range and organic chicken across the UK.
The battle between private label and brands is intensifying as private label ranges have continued to increase market share over the past years. It has proved particularly successful during the recession as consumers down trade, coinciding with retailers de-stocking some third party lines while investing in the further development of their own brands.

During the recession, trading down within store rather than switching brands became popular as consumers look for lower prices and quality guarantees.

Summary Overview

Growth in private label will slow in the UK over the next five years after a decade of huge growth. Despite this, new private label ‘brands’ will continue to appear, and retailers will seek to expand private label offering into other areas through the use of co-branding and exclusivity arrangements.

Private Label Developments

The battle between private label and brands is intensifying as private label ranges have continued to increase market share over the past years. It has proved particularly successful during the recession as consumers down trade, coinciding with retailers de-stocking some third party lines while investing in the further development of their own brands. During the recession, trading down within store rather than switching brands became popular as consumers look for lower prices and quality guarantees.

Tesco is encouraging people to switch to private label and consumers are far more receptive to switching from proprietary to retailer brands given the economic backdrop. There is a lot of pressure on branded manufacturers now and this will only continue.

“The multiples are encouraging people to switch to private label and consumers are far more receptive to this given the economic backdrop. The pressure on branded manufacturers will only continue.”

MD – Major Producer

“This will continue to increase and will see many manufacturers looking to supply private labels instead of creating their own branded goods. Private labels are no longer a cheap option and have become trusted (and cheaper) brands in themselves.”

Business Planning Manager – Major Retailer

“Tesco is encouraging people to switch to private label and consumers are far more receptive to switching from proprietary to retailer brands given the economic backdrop. There is a lot of pressure on branded manufacturers now and this will only continue.”

Commercial Director - Supplier

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Source: Keynote Market Forecasts: Food Catering and Drink Market Focus - 2009

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Europe is the largest market for private label products globally. Within Europe, the United Kingdom is the largest private label market by size, followed by Germany. Private label penetration in the United Kingdom is forecast to well exceed 40% in 2011.

Most UK retailers continue to employ a basic-middle-best strategy with their private label ranges, and the same consumer is likely to buy from all three tier ranges depending on their needs. However, the success of private labels in the United Kingdom can be partially gauged by the fact that consumers are reveling in ‘premium’ private label categories. Private labels have consistently emerged on top in terms of quality and consumers today associate private labels with innovation and trustworthy quality.

Another important success factor has been the dynamism and innovation of UK retailers. Faced with intense competition from other players, they have continuously re-invented their ranges, and modified products to suit changing consumer demands.

Sainsbury’s Taste the Difference
Sainsbury’s, faced with increased competition from Tesco, changed its private label image from ‘low price’ to ‘premium quality’. The Taste the Difference range was recently the subject of the supermarket’s largest product launch to date, led by a successful campaign featuring brand ambassador Jamie Oliver that contributed to a 2.9% increase in sales.

Sainsbury’s Bistro Range
A new line of restaurant-quality premium ready meals launched in 2010 under the Taste the Difference label, featuring starters, mains and desserts for 2 diners.

Chef Neil Nugent
The Michelin-starred chef headed several award-winning restaurants before moving on to work at Asda, Sainsbury’s and Waitrose, and has recently been hired by Morrison’s to re-vamp its own label products ahead of an anticipated re-launch.

Tesco Own Brand Price Drop
For the first time since 2007, Tesco’s new chief executive has initiated across-the-store price reductions on everything from basics to the Tesco Finest range, an indication that the future of Tesco’s own label is price-focused.
Exclusive Deals
Suppliers and retailers will increasingly have the opportunity to enter into exclusivity relationships, whereby producer-branded products are sold exclusively in an outlet with no retailer branding. The result is defacto private labels without the prominent branding of the retailer, which can be off-putting to some consumers who tend to favour a branded product. Furthermore, the producer has the opportunity to retain and build its own brand. Exclusivity agreements may last from 2-5 years typically.

Examples include:

**Canus Goats Milk Soap**
Whole Foods signed an exclusive deal in May 2011 with Canus Goat’s Milk Soap and will begin stocking its ‘Grab and Go’ products in bulk across the Pacific Northwest and Southwest in America. The partnership allows Whole Foods to set up soap displays where consumers select from several flavours of unpackaged soaps and put them into Canus branded bags.

**Champney’s Spa Products**
From 2004 - 2011 Champney’s Spa Products had an exclusive deal with Sainsbury’s but from 2011 it has forged a new exclusive partnership with Boots, joining Boots other exclusive luxury spa product, Sanctuary.

**Oatmeal of Alford**
Small Scottish oat manufacturer Oatmeal of Alford recently went on sale exclusively in three Waitrose stores in Scotland and is also available online.

**Stabiliser™ Beef**
A small group of Yorkshire farmers known as Beef Improvement Group signed a partnership in 2010 with Morrisons to supply meat from a new type of sustainable beef cow, called the Stabiliser™.

Co-Branding
Co-branding in which a retailers’ brand is applied along side that of the producers. This is often done in the context of an exclusive deal.

Examples include:

**Davidstow Cheddar**
This co-branded cheese is unique to Waitrose and prominently displays its exclusive relationship on the front of the packet.

**Heston Blumenthal’s Hidden Orange Christmas Pudding**
Heston Blumenthal created an exclusive Christmas Pudding in partnership with Waitrose for Christmas 2010 that included a whole candied orange in the centre. The product was so popular it sold out in stores and could be found on eBay for upwards of €80.5.

**Louis Chaurey Champagne**
Champagne brand produced entirely with the branding of a regular champagne bottle. The only mention of M&S comes in the small print which reads ‘Produced for M&S’.

**Duchy Originals from Waitrose English Raspberries**
This brand incorporates the Waitrose name into the existing design of the Duchy Originals, creating a subtle partnership based on their exclusivity agreement.

**Marks & Spencer Oakham © Chickens**
Marks & Spencer is the only stockist of Oakham© chickens, a slower-growing breed that come from dedicated UK farms. Every Marks & Spencer package that carries Oakham prominently displays the label on its packaging.
“It is going to be increasingly important to have products which are tailored to one or two person families which will be cooked on the evening of purchase.”
Marketing Director – Major Multiple

“Shelf ready packaging is one area we feel our suppliers can improve upon.”
Marketing Director – Major Multiple

“People want to cook but they remain time sensitive so they want ready meals that you have to prepare yourself, but which have all the ingredients already selected and measured in one easy packet.”
Head of Strategy & Business Planning – Major Multiple

Summary Overview
For Irish producers to grow market share and gain store shelf, an awareness of existing and future retail trends is an obvious pre-requisite. What is perhaps less clear is interpreting how each of these will impact a particular product or supplier. What retailers have made clear is that they expect suppliers to renovate and develop new products at the same time that they themselves are changing to enhance efficiencies and take into account areas of social and eco responsibility. So the environment is potentially pretty dynamic.

Many consumer trends evolve slowly and many of the things that consumers and retailers are looking for from suppliers are already being considered, and indeed adopted by food producers.

While there will be an underlying awareness of trends in formulation, packaging and positioning, suppliers need to constantly review and update and note subtle changes that are happening. Suppliers will also need to review trends in the context of the different markets they are looking to enter, as each country will have adopted trends to different degrees and of course have their own.

What follows are examples of interesting products that have tapped into ongoing consumer needs around formulation, packaging and positioning.
Retailer Perspective on
Best-In-Class Products

Best-In-Class: Formulation

Retailers are constantly on the lookout for new products that answer to changing consumer lifestyles and bring original and exciting product ideas to retail shelves.

- **Healthy**
- **Organic & Natural**
- **Fine Dining at Home**
- **Hero Ingredients**
- **Need for Variety**
- **Longer Shelf Life Products**
- **Ready to Go Foods**
- **Snack Foods**
- **Technology**

While these areas may not be new the examples here provide insight into what retailers consider to be best-in-class.

**Healthy**: Retailers will continue the drive towards foods with increased wellbeing benefits, harnessing consumers’ growing food-related health awareness and government sponsored initiatives, such as low sugar, low salt and low fat. Other health areas include functional foods, protein or vitamin-enriched and disease prevention.

**Cherry good**: The first cherry juice drink in the UK prominently features its health benefits in all marketing.

**Holme Farm**: Their venison is stocked in major supermarkets and advertised as a naturally low fat meat, ‘full of goodness’, from naturally-raised deer that graze freely.

**Good4U**: Health food brand that specializes in ready to eat bean sprouts and shoots has just launched their first flavor of ‘Smart shots’, a functional energy drink made of wheatgrass, apple and lime that is being trialed in stores in Dublin.

**Longer Shelf Life Products**: Consumers are looking for longer shelf-life products; equally, retailers are keen to extend the time that they can leave product on shelf. Additives and processes that extend shelf life are of interest.

**Avtar Handa**, a professor of horticulture at Perdue University, found that adding a yeast gene increases production of a compound that slows aging and delays microbial decay in tomatoes. Cargill has developed a food processing technology to create Fressure™ fresh ground beef patties, which have double the shelf life of traditional fresh burgers.

**Organic & Natural**: The spotlight on organic, natural ingredients and farming processes such as foraging for fruit, vegetables and herbs, is gaining momentum, championed by culinary personalities and reflecting the trend for a return to all things ‘natural’.

**Natoora**: A specialist online natural food grocer that stocks a selection of foraged seasonal produce.

**Organic Avenue**: Contains raw, unprocessed, organic fruits which improve the health of customers.

**Ready to Go Foods**: These factors have also seen an increase in demand for controlled, manageable, complete foods, as consumers look for all-in-one solutions with multiple flavour combinations. What will be the new cereal bar?

**Little dish**: A series of ready meals for young children that focus on classic ‘home-style’ dishes such as fish pie, pasta bolognese, cottage pie, and pasta with peas.

**Nescafé**: New coffee in a pouch experience, giving customers a singular helping containing, milk, coffee and sugar for one.

**The Bitterball**: This traditional Dutch snack has been revolutionized by Chef Thor, taking on new flavours and bringing it into the 21st century.
Fine Dining at Home: ‘Staying in’ is the new ‘going out’, as consumers hone their cooking skills, host dinner parties and create restaurant experiences at home. Retailers looking for specialty foods, ‘restaurant style take-away’ dining options that give them a share of the ‘dining’ market.

Mark & Spencer: The M&S dining-in experience provides a gourmet meal and wine for two for £10.

Tesco: The ‘Restaurant Collection’ offers consumers dishes they would struggle to concoct themselves even if they had the time.

Scratch: Scratch ready meals are marketed as ‘Proper cooking, Proper quick’ for people with little time who still desire the home-cooked experience, including all the ingredients necessary, even herbs, seasoning, olive oil and white wine.

Snack Foods: Consumers are looking for new snack food options, from all categories.

Twix Fino: Not positioned as lighter option; Twix Fino allows snacking indulgence with less fat and calories, free from the stigma of being a ‘diet brand’

Savoury Crackers: Shifting the reputation of the rice cake from that of a bland snack for the weight conscious; Kallo is diversifying their palette with new flavours.

Marmite Cheese Bites: On-the-go snack food, single portion marmite-flavoured cheddar circles to unwrap.

Hero Ingredients: Specific ingredients are being glorified, as products highlight a unique ingredient, with the finest ones standing out to become brands in their own right. Consumers are also looking for ingredient reduction – products with less than 5 ingredients.

Bordier Butter: Jean-Yves Bordier’s butter from Saint-Malo in France is widely regarded as the finest butter in the world.

Nielsen Massey: Makes a range of vanillas depending on the origin of the bean, including Madagascan, Mexican, Indonesian & Tahitian, and has information on its website on the specific culinary use of each particular type.

Technology: Any technology that brings a consumer benefit or retailer efficiency is of interest to the retailer.

Minus 8: Named after the freezing conditions in which the grapes are hand-picked and pressed, Minus 8 is traditionally slow fermented from extraordinary wine. The process makes for a syrupy mellowness that is the perfect complement to tenderloin, foie gras or ice cream.

Refuel & Repair: This sports recovery ready-to-use beverage is a high protein drink featuring Prodiot Fluid technology. This allows the drink to incorporate higher levels of protein in it without increasing its viscosity, aiding rehydration.
Best-In-Class: Packaging

The same consumer needs that drive formulation trends will encourage packaging innovation. Packaging is a mechanic to convey trust, authenticity, variety and enhance convenience. Retailers take a lead, ahead of the consumer, in green / sustainability issues and looking for packaging solutions that improve efficiencies.

- Transparency
- Eco & Sustainability
- Extending Shelflife
- On-the-Go
- Artisan Packaging
- Packaging Modernization
- Labelling Evolution
- Retailer Friendly Packaging
- Packaging Reduction

While these areas may not be new the examples here provide insight into what retailers consider to be best-in-class.

Transparency: Packaging with product visibility, including windows, smaller labels, and clear materials. Labelling will be cleaner and more neutral in appearance, with easy to understand ingredients’ lists.

Supermarket chain Migros: has used transparency in an eye catching way with its packaging of Irish Angus fillet. The texture of the quality beef becomes a design feature.

Innocent: The fruit juice maker has made the USP of their ‘Veg Pot’ meals that only three ingredients are used.

Ec0 & Sustainability: Major retailers, via their commitment to corporate and social responsibility, are leading the drive for sustainable packaging. Retailers will look to collaborate with producers reduce packaging and use recycled and biodegradable materials.

Boxed Water: 90% of the container is made from renewable resources and also promotes their environmental position on the exterior.

Steve’s leaves: Bagged salad leaves advertised as ‘only washed in spring water’, that are grown by nature friendly farmers that build wildlife habitats. ‘Steve’ has a PhD in watercress.

Artisan Packaging: With Bord Bia’s guidance, small producers can use their size as their USP, emphasising the local, artisan nature of their brand and product portfolio from appropriately designed packaging and labelling.

Goat Island Pepper Sauce: The cap seal ribbon as well as a production date ribbon, gives the impression that it is brewed and stored in an artisan environment.

Glenrothes Scotch Whiskey: Using a hand written look for the tasting notes on its labels and a simple corrugated cardboard outer-casing emphasises the handmade artisan quality of the whiskey.

Labelling Evolution: Labels are likely to evolve as QSR codes become the norm, government health labelling requirements increase, and other elements have to take up label surface area.

Meat Labelling: The EU is making a push for clearer food labelling rules on meat, to allow consumers to identify exactly where the food they have purchased has come from.

QR Codes: The wine industry has embraced QR Codes on their labels as a tool to enhance the buying experience, from making recommendations to offering promotions.
Extending Shelf-life: The drive towards greater chilled foods creates a need for packaging materials which help to maintain freshness. Retailers are increasingly looking for packaging which boosts shelf life of products such as meat and dairy.

McCains: A 1mm wide ‘Integrity Seal’ is designed to reduce manufacturing costs, cut down on food wastage and prolonging freshness and shelf life.

Tesco Fresh and Naked: Uses a new packaging technology called Bioptima, which is fully biodegradable while also helping prevent salad from drying out.

Retailer Friendly Packaging: Suppliers have to make sure their packaging works within the aims of different retailers’ CSR programmes (in relation to package reduction and sustainability), and are shelf ready for all in-store requirements.


Sainsbury: Suppliers are now providing retailers such as Sainsbury’s with branded multi-pack cartons designed to stack and sit on shelves easily thereby maximising space and aiding storage and stock control.

Tesco: Have created a system that is just wheeled onto the store floor, significantly cutting shelving time and product handling.

On-the-Go: Consumers are enjoying food and drinks during their commute, at their desks, and generally while on the move. Lunch kits, car-friendly beverages, and other on-the-go options are of interest.

Nutella to Go: Holding cookies, Nutella and a chocolate milk all in one container creates a perfectly indulgent and convenient snack.

Graze: This UK company allows subscribers to tailor ready-to-go snacks to their lifestyle. The snack boxes are delivered according to customers’ preferred frequency.

Yorkshire Provender Soups: Are marketed towards health-conscious office workers as a quick meal made from natural ingredients, made from the recipes of founder Belinda Williams.

Packaging Reduction: Retailers are focused on pack reduction as this positively impacts on all elements of the supply chain from store and transport to stacking and shelving. Formats and structures are being adapted, e.g. by making store shelves simpler to replenish products appear better on the shelf; by optimising pallet use; by reducing product handling; by improving transit protection and even reducing the number of vehicles on the road.

Sainsbury’s Milk in a Bag: The new packaging has reduced wastage by 75%, and in the coming year Sainsbury’s will stock the full range of its milks in this more sustainable format.

Lincolnshire Herbs: Lincolnshire Herbs have redeveloped its packaging for deliveries. A 20% material reduction has reduced the need for vehicle and storage space, enabling an extra 10,200 packs per lorry load..
### Best-In-Class: Positioning

Often products need not change at all, but rather, the positioning of the product can be adjusted to highlight benefits based on current and emerging trends. Trend areas that may currently be leveraged by Irish producers include:

<table>
<thead>
<tr>
<th><strong>Category</strong></th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health Benefits</strong></td>
<td>Suppliers must find ways to emphasise the health benefits of their products wherever possible to stay relevant to health conscious consumers. Cheerios: Producer General Mills has adapted their breakfast offering so it is now a health option.</td>
</tr>
<tr>
<td><strong>Natural Hook</strong></td>
<td>Irish suppliers will be expected to place a strong focus on the natural qualities of their products. ‘Natural’ symbolises healthy, premium and ethical in the eyes of consumers. Plum Organics: The maker of organic baby food has released a product called ‘Just’ which contains just one ingredient. Haagen-Dazs: While their core product is not typically associated with health, the American luxury ice cream has been repositioned for the health conscious age in the shape of the ‘five’ range. All products in the range contain only five (natural) ingredients.</td>
</tr>
<tr>
<td><strong>Food Safety</strong></td>
<td>Following a series of food scares over the years, consumers will be looking for products with a safe history, backed up with the facts. Pasteurized Eggs: Pasteurized eggs became popular amid bird flu concerns, and as a result eggs which have been pasteurized are marked with a P to reassure consumers of their safety.</td>
</tr>
<tr>
<td><strong>Deep Dive Provenance</strong></td>
<td>The strong heritage and provenance of Irish products must be emphasised at every opportunity, also highlighting the regional heritage within Ireland, to add an element of specialization and local pride. Clarence Court Eggs: All Clarence Court eggs prominently display the name of the farmer who produced the particular batch of eggs. In this case, from Mabel Pearson of the Cotswolds. The Cheese House: Denhay farms supplies cheddar to Waitrose’s own label range and also under its alias as The Cheese House, where everything is in the hands of a single cheese-maker, only the company’s 3rd cheese-maker since 1950.</td>
</tr>
<tr>
<td><strong>Reassurance through Heritage and Personality</strong></td>
<td>Heritage credentials of brands and products to increase confidence and connect consumers to brand narratives. Images of the family farm, personal messages from the producer, and other representations of pride and authenticity, set in a modern way, reinforce the story. Debbie &amp; Andrew's: A sausage company named after the married co-founders, which advocates traceable sourcing and only uses pork from small British and Scottish farms with known animal welfare policies. James Chapman Butchers: Define themselves as a ‘Family Company since 1893’. Their website features family recipes that have been handed down over the generations.</td>
</tr>
<tr>
<td><strong>Aspirational Ingredients</strong></td>
<td>Larger Irish suppliers of dairy goods and ingredients have the opportunity to and position themselves as an aspirational product in their own right. Philadelphia Cream Cheese: Philadelphia is promoting further use of the cheese by displaying alternative recipes on its website and in TV and editorial advertising campaigns. Lurpak: Advertisements referring simply to ‘Lurpak’ and recipes which include the product all farm part of a concerted push to turn the brand into a trade name.</td>
</tr>
<tr>
<td><strong>Other Trends</strong></td>
<td></td>
</tr>
</tbody>
</table>

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31
Supply Chain
Advancements

“The key is to have a supply chain which can supply each store with a range that fits that particular area’s audience.”

Head of Planning & Forecasting – Convenience Symbol Group

“There have been far more brands operating in Ireland than in the UK due to customer loyalty, but as the customer demands more value, a range rationalisation similar to the one in the UK will take place in Ireland.”

MD – Major Producer

“Private label will continue to grow and manufacturers will look to supply private labels instead of creating their own branded goods. Today private labels are no longer a discount option and have become trusted brands in their own right.”

Marketing Director – Major Multiple

Summary Overview

Retailers are looking to streamline their supply chains to achieve cost savings and improve efficiencies, while simultaneously complying with evolving environmental guidelines and contending with other considerations and limitations. New warehousing and distribution methods are being developed with collaboration and sustainability in mind.

Though considerable cost reduction exercises have been undertaken in recent years, retailers continue to look for ways to trim resources, in the form of labour and cash costs, from their distribution logistics. New software and hardware technologies are proving increasingly valuable in monitoring stock levels and distributing goods more efficiently.

Retailers are rationalising their stock to simplify complex product ranges, reduce the assortment and optimise shelf and warehouse space space. This simplification of the shopping experience also makes it easier for customers to shop and it helps retailers to reduce ‘out-of-stock’ occurrences, increase efficiency and profitability.

Simultaneously, management is continually identifying methods, including working with regional experts, to confirm stock is relevant to localised tastes and needs, and new technology is making it possible to manage a larger and more tailored base of suppliers.
Advancements

Supply Chain

Retailer Supply Chain Overview

<table>
<thead>
<tr>
<th></th>
<th>Tesco</th>
<th>Sainsbury's</th>
<th>Waitrose</th>
<th>ASDA</th>
<th>Iceland</th>
<th>The Co-operative</th>
<th>Marks &amp; Spencer</th>
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<tbody>
<tr>
<td>UK Turnover</td>
<td>€42.254m</td>
<td>£19,963m</td>
<td>€4,418.2m</td>
<td>€18,420</td>
<td>€2,122</td>
<td>€12,900m</td>
<td>€10,360.5m</td>
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<tr>
<td># of DCs</td>
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<td>20</td>
<td>9</td>
<td>25</td>
<td>4</td>
<td>26</td>
<td>8</td>
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<tr>
<td>Av. Stock Level (Days)</td>
<td>10.3</td>
<td>8.8</td>
<td>15.6</td>
<td>9.02</td>
<td>9.3</td>
<td>4.2m</td>
<td>0**</td>
</tr>
<tr>
<td># of Stores Serviced</td>
<td>2,545</td>
<td>890</td>
<td>223</td>
<td>359</td>
<td>695</td>
<td>4,048*</td>
<td>624</td>
</tr>
<tr>
<td># of Cases Delivered</td>
<td>2.0bn</td>
<td>1,043m</td>
<td>217.1m</td>
<td>1,170m</td>
<td>149.2m</td>
<td>474.1m</td>
<td>199.4m</td>
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<tr>
<td># of Vehicles</td>
<td>1,854</td>
<td>1,311</td>
<td>379</td>
<td>1,853</td>
<td>328</td>
<td>1,285</td>
<td>717</td>
</tr>
<tr>
<td># of Warehouses</td>
<td>N\A</td>
<td>N\A</td>
<td>N\A</td>
<td>N\A</td>
<td>N\A</td>
<td>N\A</td>
<td>N\A</td>
</tr>
</tbody>
</table>

*excluding other stores and independents

Rationalisation

Retailers are looking to stimulate as much competition between producers as possible through range rationalisation, while improved sales data allows stock managers to micromanage ranges. Furthermore, retailers are tailoring their offering to an increasingly time-poor consumer who no longer values choice for choices sake but demands a curated choice of desirable products only.

Warehousing & Distribution

The supply chain is constantly looking to cost-saving techniques and to ways of improving efficiency, whilst simultaneously satisfying the ever-increasing environmental demands and limitations imposed on retailers and producers. New warehousing and distribution methods are being innovated with collaboration and sustainability at the helm.

Collaboration and Consolidation in the Supply Chain

Collaboration in the food and grocery supply chain, in order to improve efficiency and reduce costs, is a continuous trend in the UK grocery market. Companies such as Reed Boardall, the UK’s largest single-site frozen consolidator, works with most of the supermarket chains.

• Tesco, Asda, Sainsbury’s, Morrisons and Iceland: Tesco, Asda, Sainsbury’s, Morrisons and Iceland all consolidate frozen goods deliveries from Reed Boardall, a temperature-controlled distribution company. Its warehouse has a fleet of over 160 tractors and 240 refrigerated trailers.

• Co-op and Somerfield: The Primary and Commercial Division of Co-operative Food Supply Chain Logistics partners with Somerfield operations to offer a range of collection, delivery and storage solutions for all Co-op and Somerfield suppliers.

• L’Oréal and Asda: L’Oréal and Asda started their supply chain-led collaborative relationship in 2005, with the objective of improving forecast accuracy, in-bound service level and on-shelf availability.

Warehouse & Distribution

Over the next five years retailers expect to invest heavily in the modernisation of their warehouses and distribution systems, optimising potential savings and accommodating new channels such as home delivery. The trend will be towards fewer but bigger warehouses that achieve economies of scale and also support CSR expectations. Retailers will be looking for producers to meet them halfway on this path of consolidation.

• Collaboration in the Supply Chain: Improvements in supply chain efficiency and cost reduction are the main drivers for business collaboration with suppliers in the food and grocery supply chain.

• Sustainable Distribution: Retailers and producers are seeking to bolster their CSR credentials by making their distribution more sustainable, through initiatives that demonstrate significant changes in distribution operations, such as consolidation distribution, upgrading transport technology, optimising load fill and re-thinking transport modes. Retailers are conscious of their carbon footprint, and are looking for opportunities to reduce this while working with energy consultants.

Logistics

Maximising control over stock, streamlining the supply chain process and extending shelf life via supply chain efficiency are high on the agenda for major retailers. New technologies are being implemented to inform distribution more effectively, tightening the supply chain as much as possible while ensuring stock levels are still stable. Improved data collection methods are also being implemented to ensure stock is relevant to localised tastes and lifestyle needs.

• Automated IT Systems: Producers and retailers are increasingly improving their IT systems, while working off the same software, which is helping to streamline supply chain operations, improve transport planning, minimize costs and web-based orders timing.

• Customised Product Ordering: Streamlining the supply chain relies on accurate predictions of local buying purchases and product preferences, and retailers are increasingly working with regional outlet managers when making orders, as they are best placed to understand regional needs. Use of local knowledge presents opportunities to integrate suppliers into the everyday local life of their community and customers.
The retail industry has the highest spend of any industry in the UK on sustainability. While retail is considered a responsible party for the UK’s climate, retailers recognise that up to 90% of the energy consumed comes through their supply chains, and indeed suppliers. As retailers focus on the carbon footprint of their supply chains, and create policies for carbon abatement, they will increasingly demand best practice from their suppliers.

Examples of retailer activities include:

- **Marks & Spencer:** Marks & Spencer has moved its supply chain of 300,000 general merchandise products from road to rail distribution, cutting 750,000 road miles and saving around 800 tonnes of CO2 each year.

- **John Lewis/Waitrose:** John Lewis has pledged to cut its emissions by 15% over the next 10 years, and announced in March 2011 its plans to build 150 renewable energy centres across the UK to help power its stores. Waitrose is currently building a biomass-powered energy centre at East Cowes on the Isle of Wight. They also stated that they will be addressing other factors, including fuel combustion, refrigeration and delivery trucks, as well as third-party contract distribution, un-recycled waste disposal, and water supply and treatment.

- **Taylors of Harrogate:** The tea and coffee supplier, has awarded a ten-year contract to PD Ports, which will save the company around 100,000 road miles each year.

- **Nestlé:** Nestle’s commitment to reducing its road traffic by 20% by 2012 has led to a shift from road to rail for its York to Scotland deliveries.

- **Unilever:** Identified increased load-fill opportunities and carbon reduction through double-stacking and double-deck trailers.

- **Wincanton:** Europe’s leading supply chain provider has reduced its carbon emissions by over 4.5% over the last 3 years. The company spends over €100 million a year on energy, and achieved its reduction through network optimisation and backhauling to increase load factors, fuel efficient driver training, using double-deck and teardrop trailers and introducing movement sensors and re-lamping in buildings to cut electricity usage in its 245 warehouses.
Though much work has been done in recent years, retailers are still looking at ways to trim time and cost from their distribution logistics. New technologies are proving increasingly valuable in monitoring stock levels and distributing stock more efficiently. Knowledge-based methods are also being implemented to ensure stock is relevant to localised tastes and needs.

Automated IT Systems
The implementation of improved IT systems and software such as Paragon, OmPrompt and Aldata is helping to streamline supply chain operations between suppliers and retailers. With producers and retailers working off the same software, it is helping to minimise costs, reduce the time taken to review web-based orders and help with better transport planning.

• Marks & Spencer: M&S will use the software developed by Quantum Retail Technologies to manage the end-to-end inventory forecasting, replenishment and order planning needs. They will use the software to analyse sales volumes and localised customer behaviour to decide, for example, whether it is better to stock sandwiches at 9am or 3.30pm for a particular store.

• Waitrose: Waitrose has implemented a new Aldata software ordering system in their temperature-controlled frozen distribution centres. Results have shown a better balance between high availability and low inventory levels and the time taken to review orders has since halved.

• Kimberly Clark: Global FMCG manufacturer Kimberly Clark has extended its contract with OmPrompt’s Carrier Connect order automation technology system, providing crucial visibility across the supply chain. The technology has been used in the UK and more recently in Eastern Europe.

• Tesco: Tesco has recently revamped its stock reduction process across 14 international markets by standardising its IT systems. This has resulted in increased efficiencies and reduced costs.

Customised Ordering Systems
Alongside automated ordering systems, retailers are working with regional outlet managers when placing orders, as they are as being the best qualified to understand the local needs of their customers, based on regional tastes and lifestyles. Retailers have competed heavily on price in recent years, but an effective means of gaining competitive edge in the future is expected to be localisation. Streamlining the supply chain relies on accurate predictions of local buying purchases and product preferences, and reduction of food disposal / unsold food.

The best independent retailers in the UK and Ireland have long known how to facilitate the local profile needs of their customers. From the product they sell, to the way they display it, from their store design to the way they advertise, they use every bit of local knowledge opportunity to integrate themselves into the everyday local life of their community and customers. Examples include:

• Sainsbury’s: The retailer is increasingly focusing on specialised products, with Sainsbury’s store managers and staff speaking to customers about local products, which they then endeavour to buy in for the store.

• Morrisons: Morrisons has adopted a degree of decentralised buying, by allowing store managers to make decisions about buying for certain stores based on local customer feedback.
Rationalisation

Grocery retailers have to find new ways to make their offering as relevant, seamless and physically accessible as possible to fit consumers’ conflicting demands for variety and streamlined, edited selection. They also need to cater to consumers who are becoming increasingly sophisticated with their grocery purchases, and who have come to expect fresh produce on demand.

Retailers are rationalising their stock in efforts to simplify complex product ranges, reduce the assortment and optimise space devoted to products. This simplification of the shopping experience also makes it easier for customers to shop and it helps retailers to reduce ‘out-of-stock’ occurrences, increase efficiency and profitability.

For retailers, an understanding of product loyalty and the profiles of consumer baskets is crucial when determining how shoppers may respond to the de-listing of an item and the resulting impact. Ranges need to be skilfully edited, making sure that retailers have the right consumer data to de-list products to minimise loss of custom.

- Asda: The Walmart-owned retailer has been cutting back on ranges for a number of years and has recently removed even well known brands from its shelves such as I Can’t Believe It’s Not Butter and Princes Tuna.
- M&S: M&S is utilising RFID monitoring technology to micro manage its stock better for each store, giving local shoppers more of what they want, and offering smaller suppliers the opportunity to gain trialling contracts for certain stores.
- Morrisons: Morrisons has made rationalisation one of its new key initiatives by simplifying its more complex ranges. It is for example cutting down on its current 16 kinds of balsamic vinegar.

Product Rationalisation:
Driving out non-value adding stock

![Diagram showing Product Rationalisation](image)
Appendix: Implications for Irish Producers

Summary Overview
This section is designed to stimulate thinking for Irish suppliers by summarising the major trends covered in the report. By understanding how the retail landscape is likely to evolve in the coming 5 years, producers can think of how to adapt their product, packaging, pricing, marketing and logistics to take advantage of emerging opportunities.

Food For Thought
The changing retail landscape will provide both challenges and opportunities for Irish producers. The economic uncertainty for both UK and Ireland will inevitably cause problems for some as consumers look for value price points. Riding the storm will be par for the course in the short term at least.

Suppliers will need to adopt methods to retain any presence they currently have with UK retailers as these companies bring together their supply networks. To gain a foothold, suppliers will need to assess the costs around doing this in terms of the undoubted price pressures large retailers will put on them, and consider things such as co-branding or exclusivity. Once a supplier they must continue to look at competitors and what new products are emerging in their space, review their own USPs and assess whether they can stretch their brand offerings in order to retain the contracts. Given the fragility of these relationships, the producers must always be looking ahead and be considering other options.

The obvious benefits of quality and provenance have to be considered as essential elements of the brand and marketing mix that suppliers adopt. Labelling, product information, branding and communications will need to be consistent and really ensure that the products stand out from the crowd as competition will without doubt increase. Whatever helps, be it celebrity chef alliance or specific store promotions, then the suppliers should at least consider the pros and cons and also consider if it’s something a group of like-minded producers could do together.

Any continued decline in the independent retail sector will present challenges perhaps less anticipated some years ago. If these are replaced by convenience outposts of large supermarket chains, producers will need to be creative in how they retain market share when competing with UK and continental brands. They will need to constantly promote their products, stay high on the radar of the buyers and educate about the benefits. Irish consumers will need to be enticed to stay to buy Irish as local and not be seduced by non Irish ‘local’ brands.

The developments in technology will have a variety of effects. Ease of access to information by existing or current customers of their produce means all suppliers will need to be clear about pricing, ingredients, any eco-credentials etc. Suppliers will also need to keep abreast - if not ahead - of retail shopping trends so that they are well placed to be considered as a supplier for any of the larger outlets (for example, packaging formats, inventory control developments and so on). Online and mobile commerce will not be going away, they are part of the shopping mix for many consumers already. Suppliers need to embrace them and educate themselves as to what this could mean for them. They will need to consider as many routes to market (channels) that work for them. Could they supply niche products to a shopping channel for example?
### Product Formulation

<table>
<thead>
<tr>
<th>Insight</th>
<th>Explanation</th>
<th>Examples</th>
</tr>
</thead>
</table>
| **Offer Innovation in Flavour and Texture** | Retailers want to be seen as innovators, and want to bring new and inventive products to consumers | • Flavoured meat  
• Pulled meat  
• Use of specialty salts and butters |
| **Healthy Options** | Based on public and government pressure, CSB and a growing consumer demand for healthy products, retailers are looking for new healthy products | • Low sugar  
• Low salt and fat  
• Functional foods  
• Protein, calcium or vitamin-enriched  
• Disease prevention options  
• Heart healthy  
• Small, portion-control sizes |
| **Convenience for On-The-Go Products** | Convenience stores are offering consumers options for eating breakfast during commute, lunch at desk, and all-day snacking. | • Single-serve items  
• On-the-go breakfast  
• Lunch packs  
• Snacking |
| **Restaurant-Style Partially Prepared Foods** | Staying in is the new going out. Specialty foods, hosting items and ‘restaurant style take-away’ options provide a share of the ‘dining’ market. | • Premium ready meals  
• Near-ready ingredient packs  
• Multiple courses packs  
• Partnering with other sectors (e.g. wine) to offer a complete meal |
| **Increase of Healthy Snacking** | Protein-led snacks are on the rise with other categories also offering possibilities | • Seafood snacks  
• On The Go beef products  
• Dairy Snacks |
| ** Longer Shelf Life** | Ability to make products last longer, in particular produce, including meats, fruits and vegetables, adding sales life for retailers | • Ingredients/additives to extend shelf life  
• Farming techniques to extend shelf life |
| **Reduced Ingredients** | Retailer will respond to consumers increasing demand for fewer ingredients, less additives | • All natural ready meals  
• Single ingredient snacks  
• Campaign, for natural quality of Irish produce |
| **Consumer Focus on Feed** | Consumers are increasingly aware of what animals are reared on | • ‘Grass fed’ positioning emphasised on packaging  
• ‘Grass fed’ PR campaign focused on premium end of market |
| **Focus on Freshness** | Retailers are looking for new ways to deliver freshness | • Development of new pasteurisation methods  
• Develop new transit friendly states (as with cheese) where end market can rehydrate product, and extend shelf life |
## Packaging

<table>
<thead>
<tr>
<th>Insight</th>
<th>Explanation</th>
<th>Examples of Opportunities</th>
</tr>
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<tbody>
<tr>
<td>Retail Expansion Will Happen in Convenience</td>
<td>Retailers are focussing a major part of growth on the convenience channel</td>
<td>• Convenience size products&lt;br&gt;• Chase new business with small convenience chains&lt;br&gt;• Shelf ready packaging for convenience&lt;br&gt;• Cater for logistics/delivery needs of convenience format</td>
</tr>
<tr>
<td>Interest in Aesthetic Modernisation</td>
<td>As retailers focus on re-imaging their stores, they are looking for modern-looking products that look good on shelves</td>
<td>• Modernise graphics&lt;br&gt;• Modernise logo and fonts&lt;br&gt;• Modern nostalgia</td>
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<tr>
<td>Product Visibility</td>
<td>Retailers indicated that consumers want labels reduced to provide increased visibility of the product itself</td>
<td>• Label size reduction&lt;br&gt;• Use of plastic windows on facade&lt;br&gt;• Transparent packaging materials</td>
</tr>
<tr>
<td>Sustainable Packaging</td>
<td>Pressure from consumers and legislators increases priority of sustainable</td>
<td>• Reduced packaging and refill packs&lt;br&gt;• Biodegradable materials&lt;br&gt;• Re-useable packaging with second life&lt;br&gt;• Carbon-neutral packaging</td>
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<tr>
<td>More Single Households, and Need for Easy-Serve Items</td>
<td>Retailers are looking for options for single households or individuals</td>
<td>• Single-serve portions&lt;br&gt;• Gourmet meals for one&lt;br&gt;• Ingredient bundles for single serve cooking</td>
</tr>
<tr>
<td>On-the-Go Packaging</td>
<td>Consumers are increasingly eating on the go, in car, at desk or while multi-tasking</td>
<td>• Single-serve portions&lt;br&gt;• Easy to grab ergonomic shapes&lt;br&gt;• No cutlery options&lt;br&gt;• Micro sizes, i.e. capsule size&lt;br&gt;• Soft formats such as tubes and pouches</td>
</tr>
<tr>
<td>Longer Shelf Life</td>
<td>Ability to make products last longer, in particular produce, including meats, fruits and vegetables, adding sales life for retailers</td>
<td>• Packaging that extends shelf life&lt;br&gt;• Specific packaging for long haul logistics</td>
</tr>
<tr>
<td>Artisan Look Packaging</td>
<td>Small producers emphasising the local, artisan nature of their brand and product portfolio</td>
<td>• Images of farm (with modern twist) or ingredients&lt;br&gt;• Note from the producer&lt;br&gt;• Special ‘artisan’ touches, seals</td>
</tr>
<tr>
<td>Packaging that Responds to Conditions</td>
<td>New materials may enhance the consumption experience, prolonging the freshness of ingredients.</td>
<td>• Nanotechnology packaging&lt;br&gt;• Materials that increase the freshness and potency of ingredients</td>
</tr>
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</table>
## Positioning

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</table>
| Retail Expansion Will Happen in Convenience  | Convenience channel will have fewer SKUs but more opportunities for hero products. | • Focus on core hero product.  
• Core product needs to be the best-in-class, emphasise core credentials |
| Online Grocery Shopping will Double in 5 Years | Online retail will grow rapidly as consumer trust in the format and broadband penetration increases | • B2C direct sales opportunities for suppliers with their own sites.  
• Cater for new distribution needs of online retailers |
| Irish Provenance not a Major Benefit in UK   | UK retailers and consumers appreciate Irish product, but are not committed to it and do not see the key benefits | • Build reputation of Ireland.  
• Focus on regional advantages. |
| Focus on Value                               | Retailers will continue to look for low priced products to stock in store.    | • Reduce production cost.  
• Reduce price.  
• Reduce logistics cost.  
• Justify price through quality |
| Brand Value Shifting to Retailer             | Retailers’ own private label brands are as trusted, or even more trusted in some cases, than ‘brands’. | • Consider private label if brand building presents a challenge.  
• Collaborate with private label brands on co-branded exclusive products |
| Healthy Credentials                          | Inherent healthy credentials of products is explained and highlighted.       | • Labelling to denote health credentials.  
• Windows in packaging to show ingredients |
| Sustainable Production Methods               | Retailers believe they have a role in vetting producers for sustainable production, i.e. use of grass fed livestock, and maintaining natural milk yielding cycles | • PR campaign.  
• Packaging emphasis.  
• Retailer focus.  
• Recycled packaging materials.  
• Seek relevant sustainability certification for label |
| Consumer Demand for Reduced Ingredients      | Increase interest in products with limited ingredients and emphasis on purity. | • Emphasis limited ingredients list.  
• Use of vocabulary such as “only” |

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Appendix: Implications for Irish Producers
## Promotion

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<td>Reduction of Consumer Food Waste</td>
<td>Retailers are conscious of their role in encouraging consumers not to over-purchase due to promotion.</td>
<td>• Groupon / group buy campaign&lt;br&gt;• PR campaign using Irish traditional process methods as hook for ‘less is more’ positioning</td>
</tr>
<tr>
<td>QSR Codes Will Become Common in 5 Years</td>
<td>QSR coding will become increasingly prevalent on packaging, offering consumers increased product information.</td>
<td>• Providing recipes&lt;br&gt;• Provide information about manufacture and provenance&lt;br&gt;• Tell product stories</td>
</tr>
<tr>
<td>Smart Shopper Promotions Increase</td>
<td>Retailers are watching consumers take up clever promotions or group buy / online coupon savings.</td>
<td>• Participation in Groupon or similar&lt;br&gt;• Data capture of consumer data for direct communication</td>
</tr>
<tr>
<td>Media Personality Influence</td>
<td>As food and drink increases as a popular culture subject, the amount of influence, from food-related media personality increases.</td>
<td>• Seeding product with top chefs&lt;br&gt;• Invite food critics for Foodie trips to Ireland&lt;br&gt;• Monitor food media programming for new product / cooking trends</td>
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<tr>
<td>User Generated Opinion</td>
<td>Amateur food critics and reviewers now have an increased influence online, with their impartial and trustworthy product feedback.</td>
<td>• Monitor online reviews &amp; coverage for consumer feedback&lt;br&gt;• Product seeding with influential bloggers and reviewers&lt;br&gt;• Digital PR campaign for Irish brands amongst amateur critics &amp; reviewers</td>
</tr>
<tr>
<td>Digital Promotions</td>
<td>Increase in diversity of product promotions via online platforms such as Facebook and Twitter.</td>
<td>• Increased presence on social networking sites where relevant&lt;br&gt;• Innovative online discounting competitions &amp; campaigns</td>
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## Distribution & Supply Chain

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<td>Tightening Product Ranges</td>
<td>Many retailers are looking to rationalise their range to cut out shelf space wastage and give their customers a curated product profile.</td>
<td>• Offer differentiated products to maintain relevance&lt;br&gt;• Give retailers supply-chain solutions and flexible terms</td>
</tr>
<tr>
<td>Convenience Stores – Fresh Produce</td>
<td>Smaller / convenience stores in both the UK and Ireland look to add more fresh produce to their store offerings.</td>
<td>• Focus on sales calls to stockists outside of the Big 4&lt;br&gt;• Logistics for fresh produce supply to small convenience chains&lt;br&gt;• Offer trialling periods for potential convenience stockists</td>
</tr>
<tr>
<td>Overseas Markets</td>
<td>Major retailers will target overseas expansion in the following years creating a key supplier opportunity for new market penetration.</td>
<td>• Offer retailers logistics / transport solutions for overseas operations&lt;br&gt;• NPD honed specifically for emerging markets&lt;br&gt;• Market research into taste preferences / tastes of emerging market consumers</td>
</tr>
<tr>
<td>Unified Market</td>
<td>Many retailers view UK and Ireland as one unified market, creating an opportunity for Irish producers to penetrate both through the same supply chain.</td>
<td>• Align supply chain and distribution model for unified market&lt;br&gt;• Offer retailers solutions for obstacles cause by centralisation</td>
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Growing the success of Irish food & horticulture