



The changing face of food retail

Business, values and food ethics

A report of the Business Forum meeting on
Wednesday 13th May 2015

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About the Business Forum

Ethical questions around climate change, obesity and new technologies are becoming core concerns for food businesses. The Business Forum is a seminar series intended to help senior executives learn about these issues. Membership is by invitation only and numbers are strictly limited.

The Business Forum meets six times a year for an in-depth discussion over an early dinner at a London restaurant.

To read reports of previous meetings, visit foodethicscouncil.org/businessforum.

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Introduction

Sales in the UK grocery market totalled £177.5 billion in 2015, of which around £107 billion came from hypermarkets, superstores and small supermarkets¹. The UK grocery sector is very important for the UK economy, employing 3.8 million people. The UK market's food and drink exports were worth £18.3 billion in 2014, of which three-quarters were to the EU. The UK is also one of the world's leading fairtrade markets, with sales of Fairtrade products in the UK reaching £1.67 billion last year².

At the same time, the fortunes of some major supermarket brands seem to be on the wane, price wars are widespread, while farmers and suppliers' margins are often wafer-thin. Trust in the food industry remains wobbly, in light of the horsemeat scandal and perceived insufficient action by retailers to tackle issues such as campylobacter in chicken.

Food retail is under the microscope in ways that it arguably has never been before – but what are the prospects for the sector, and what part do values and ethics play in the success or failure of tomorrow's food retailers?

The May 2015 meeting of the Business Forum explored how the food retail sector in the UK has changed in the past few years and how it might change in the future. This meeting was the Food Ethics Council's 50th Business Forum, with the first meeting having taken place eight years previously in June 2007.

We are grateful to our keynote speaker, Justin King CBE, former CEO of Sainsbury's. The meeting was chaired by Helen Browning, Chief Executive of the Soil Association and Chair of the Food Ethics Council.

The report was prepared by Anna Cura and Dan Crossley, and outlines points raised during the meeting. The report does not necessarily represent the views of the Food Ethics Council, the Business Forum, or its members.

Key Points

- Food retail is under the microscope in ways that arguably it has never been before. Myths about how much, and how quickly, food retail is changing. The seemingly unstoppable rise of the major supermarkets is being challenged, but is some of the competitive threat being exaggerated? Discounters and online shopping are on the rise, but the traditional weekly shop is purportedly far from dead.
- People's values have changed compared to previous generations. People in their role as consumers think of value more than is often recognised and many have a strong sense of the link between their purchases and the impact on the world.
- The general public are, on the whole, concerned about fair treatment of employees and suppliers, retailers supporting their local communities, protecting the environment and maintaining good animal welfare standards. That concern, however, does not always translate into purchase decisions.
- There are lots of ingredients that retailers will need to be successful in the future. Two key elements are clarity of what the retail brand stands for and collecting data in order to make better decisions.
- Debates about responsibility for health rumble on. There appears to be reluctance within the food industry to engage on issues such as sugar. Failure to engage may further fuel distrust amongst the general public.
- Retailers sometimes choose to edit on the grounds of sustainability, but the extent to which they should be making such decisions on behalf of customers is open to debate. Should retailers claim a higher moral compass and exercise that through choice editing e.g. only selling Fairtrade bananas?
- There are arguably not enough iconic, visible, identifiable leaders working in the food sector. Bold business leaders who offer a values-led sense of direction will be an important part of making values-led business the norm.

¹ <http://www.igd.com/Research/Retail/retail-outlook/3371/UK-Grocery-Retailing/> (accessed 15th July 2015)

² <http://www.igd.com/About-us/Media/Key-industry-facts/#Fact1> (accessed 15th July 2015)

Challenging powerful myths

There are a number of oft cited ‘facts’ in relation to food retail that are important to dissect when thinking about the future of food retail.

“The end of the weekly grocery shop”

About two-thirds of UK food spend is still on the weekly grocery shop, according to IGD. The remaining one-third is made up of convenience, online and discounters. Whether the relative outperformance of convenience, online and discounters in recent times will continue at the expense of the weekly grocery shop remains to be seen. If it does continue, what impacts might that have on society – and how do retailers prepare for future multi-channel shifts? However, as things stand, the end of the weekly grocery shop still seems a long way away.

Convenience shopping is expected to experience the biggest cash growth in the next five years. The poor financial performance of some food retailers in recent times has arguably been because they have made poor choices about changes that are taking place or likely to take place – including not aligning their business with where the growth is likely to be in the future. So, some food retailers have been unable to capitalise on those opportunities. This is in marked contrast to the language often used by executives of leading food retailers about ‘unforeseen impacts.’

The retail industry is based on the idea that it is an upward-moving escalator – rising inexorably upwards – and it has been until recently. Taking this metaphor further, what happens when the escalator is stopped? People almost always fall over – and that is arguably what has happened with the retail market.

“The inexorable rise of the discounters”

It was argued that there is no evidence to support the idea that the discounters are substantively the key problem for the traditional mainstream grocers at the moment. It was pointed out that discounter market share was higher around 20 years ago than it is today. It peaked in the UK in 1993, with Kwik Save (limited line discounter) having a 9.6% market share³, in contrast to a combined market share for Aldi and Lidl of around 9% today.

³<http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11057120/The-rise-and-fall-of-British-supermarkets.html> (accessed 15th July 2015)

It was suggested that some of the discounters seem to be trying to ‘move upmarket’, offering a broader range of higher quality products, with more fresh food – which is moving away from the low-cost business model on which their recent success has arguably been based. There are surely limits to the cost advantage discounters can give out – hence the rise of the discounters may not continue unchecked for ever.

“It’s all about prices”

It was argued that inflation and changes in consumer behaviour happened to coincide with the economic downturn and that the big change has been about people thinking more in the round about their household’s budgets – including how much they allocate to food. Associated with this is a sense of value that is closer to what our parents’ generation may have thought in terms of how they value their food.

A key factor for this change has been waste, particularly since early 2010 – which is when people started to really feel the squeeze of the economic downturn. In the interests of not wanting to throw money away, many people have cut down on some of the products they regularly buy. They may then be prepared to spend additional money at a convenience store if they eventually need that extra item, rather than paying for it and throwing it away as food waste.

“Online shopping is taking over”

Most online grocery shops are not (yet) making any profits. It was suggested that about 95% of retail spend in the UK is in real ‘bricks and mortar’ shops, rather than online (‘clicks and mortar’). Hence online food shopping, whilst growing, is doing so from a relatively low base – and is therefore small as a part of the total food retail market.

It was claimed that there are less than 250,000 households in the UK today that do more than 50% of their groceries shopping online. As such, online grocery shopping remains a ‘minority sport’. That minority however is important because for those who do shop heavily online, it can change the nature of their relationships with the brands they shop for. Online shopping is a utility, but whether it will ever replace ‘bricks and mortar’ remains open to question.

Shifting values

People's values have shifted compared to previous generations. People in their role as consumers think of value more than is often understood and many have a more profound sense of the link between their purchases and the impact on the world. A well told story on how customers' money is spent is likely to be at the core of the food retail industry in the future.

It was argued that the five corporate responsibility themes that resonate most with the general public in terms of what they want from food retailers are:

1. *Treatment of employees* – People understand that the service they receive as customers is directly related to how people in the industry are treated. Perhaps difficult jobs can be automated over time and people moved to more rewarding roles – but ultimately retail is a service business, and will remain so. Therefore fair treatment of employees should remain a priority concern.

2. *Local community* – Customers care about their local communities, so it is important for retailers to make a difference to issues relevant to the area the store is located in, whether that is supporting local farming or health in schools.

3. *Suppliers* – Retail supply chains are far-reaching. In relation to UK farming, customers tend to be most concerned about how employees are treated on farms. And with global supply chains, there is a general sense amongst many customers that things 'need to be done fairly'. This explains the success of Fairtrade – the overriding sense people have is that the Fairtrade premium finds its way back to the suppliers. Fairtrade works particularly well for products that have little processing between farmer and consumer e.g. bananas. It does not work quite as well when it is a product like coffee, where a much smaller proportion of the retail price will find its way back to the coffee bean farmer and where the connection is harder to see.

4. *Environment* – Environmental issues remain important, but amongst some customers, it has dropped down their priority list in recent times. Carbon was rising up the agenda, but has gone away again, because it wasn't easy for consumers to visualise the carbon impacts of their purchases. Visual reminders of retailers' environmental commitments

in-store can be valuable (e.g. photovoltaic cells on the roof).

5. *Animal welfare* – 'ethical shopping' did relatively well during the economic downturn, except for organic. It was suggested that organic faced competition on animal welfare aspects from the likes of RSPCA (through its Freedom Food label – now RSPCA Assured), whose message has perhaps been clearer, simpler and at a more affordable price.

Growing health concerns

It was noted that health remains an important concern to many people – and that if a list of top 20 'consumer issues' was presented to retailers, then health in aggregate would be likely to feature in the top five. However, it would be more likely perhaps to highlight specific health concerns e.g. relating to excessive consumption of sugar, fat or salt. When making purchase decisions, many people separate 'health' from 'ethical'.

An important question is the extent to which people take personal responsibility for their own health versus the role for retailers (and food manufacturers) to choose edit on health and nutritional grounds on their behalf. The focus on whether or not individual products are healthy can sometimes mask the more important question of whether *diets* – and people's *lifestyles* more generally – are healthy.

Food companies should have health issues very firmly on their agenda. It was argued that food businesses need to be ahead of the regulatory curve and arguably should be pressuring government to legislate more, for example on sugar. There seems to be reluctance within industry to engage on issues like sugar – and that may fuel further distrust amongst the general public. The government is more trusted on sugar than the food industry. If the food industry persists in not wanting to engage, it sends the message that it has things to hide and it potentially lowers trust further.

It was claimed that in fifty years time salt, sugar and fat might be thought of in the same way that cigarettes are today – and that perhaps the food industry as a whole is currently behind that curve of change.

Providing a higher moral compass?

Food retailers do choice edit every day – on the grounds of quality and value. Is choice editing on the grounds of *sustainability* appropriate and necessary? In the case of offering only Fairtrade bananas (as stores like Sainsbury's have done), the customer can still buy their bananas at their 'normal' price – and for the retailer, it can be simpler and cheaper to manage one line rather than several different lines (Fairtrade and non-Fairtrade versions).

However, it was argued that care needs to be taken with choice editing on the grounds of sustainability – and the question was raised whether retailers *should* be making such decisions on behalf of customers. On the one hand, the argument is that retailers do not have a higher moral compass that should allow them to make those choices for the customer – and that such a higher moral compass should instead come from government. On the other hand, given the scale of sustainability challenges facing society and a reluctance on the part of UK government to intervene, surely food retailers should take on more of that responsibility?

Farmers, land and differentiation

There has been a lot of debate amongst farmers about what they should be doing in relation to financial difficulties in the market. Farmers' primary asset (land) has in some cases tripled in value over the last few years. However, that production asset is often overvalued and expected returns from that land are perhaps unrealistic.

There is still a stronger focus on self-sufficiency in the UK than in most of the rest of Europe. In order for the UK to be able to compete better abroad, it was suggested that there should be more of a focus on producing things that UK farmers have particular strengths in. So, product differentiation is likely to be important for farmers in the years ahead, as long as they are appropriately rewarded for producing and differentiating those products – which they have not always been in the past.

Leadership: direction, wrapped in values

The successes and failures of many of the major retailers can often be tracked by individual leadership. Leadership makes a huge difference, no matter the industry. To use a sporting example, about 70% of the 2007 England rugby team, which performed badly,

were the same players that had won the Rugby World Cup just four years earlier – but crucially it was under different leadership.

Retailers are particularly challenging to lead because they are often spread across many sites (thousands in the case of major supermarkets). They also serve many thousands – or even millions – of customers every day, who the retailers need to communicate to. Visible leadership is therefore a pivotal part of success.

It was argued that employees don't work for *businesses*; they work for *people*. If leaders can help their employees understand their role and how that fits with the bigger picture, that is likely to help keep them focused and motivated.

It was argued that leaders should offer a sense of direction, wrapped in values – and that there are perhaps not enough iconic, visible, identifiable leaders working in the food industry.

There are lots of ingredients that retailers will need to be successful in the future. It was argued that two key elements are:

- (i) Clarity of what the retail brand stands for - so customers can assess the offering more easily
- (ii) Collecting data (e.g. via loyalty cards) in order to make better decisions – as long as people know how to analyse it properly and how to draw useful information from it

Future changes?

It was argued that supply chains of the future might be shorter (in terms of links in the chain) and more transparent – and that this would enable food retailers to get a better view of their wider sustainability impacts. It was also suggested that only resilient brands will survive and that in some categories only the top named brand might remain, alongside a retailer's own brand range.

Many of today's supermarket customers buy less but better quality food than they used to. Some are more engaged with food than ever before – and in an incredibly varied way (from growing food to watching celebrity chefs on the television). For many others, there is still a disconnection with where their food comes from and how it is made.

It was argued that food is going to be more important in the household budget in the future, especially as other activities become more expensive e.g. holidays and travelling. It was also predicted that there will be more seasonality in customer choice in the future (to a certain extent), but that there will still be a strong demand for a wide variety of products.

Grocers need to take a long-term view and need to think strategically about where their products come from, who owns them, whether they need to secure their own production and who they want to sell them too.

Postscript: Reflections

In a rapidly changing world, it will be even more important for food retailers to reflect on what they stand for, and prepare for the future. A mirror and a crystal ball will be invaluable tools in the future.

People have different values and these can shift over time. On the face of it, this might make life difficult for retailers 'playing the values card'. However, such an assertion implies that food companies are simply there to reflect their customers' values, when in reality companies are simply collections of people, who they try to unite under common, shared values. So food retailers arguably have an opportunity to help influence citizens' values (e.g. promoting respect for fairness), rather than simply to acknowledge and respond to those values.

Food retailing in the future is likely to be very similar to the world of grocery today. Paradoxically, it is also likely to be very different to what we know today. The businesses that succeed in the future are likely to be values-led businesses, who accept they have a responsibility to positively influence the health and wellbeing of society, the environment, farm animals and future generations.

Ethical *consumerism* is an oxymoron, but 'ethical food retail' does not have to be. The changing face of food retail might just require some changes in faces of those at the top. Bold business leaders will be an important part of making values-led business the norm.

Speaker biographies



Justin King stepped down as CEO of Sainsbury's in July 2014 after ten successful years. He has previously worked for M&S, Asda, Haagen Dazs, Pepsi, and Mars in a thirty year career spanning FMCG and Grocery Retailing. He was a non-executive director of Staples from 2007-2015, was a board member of LOCOG from 2009 – 2013, and a member of the Prime Minister's Business Advisory Group from 2010 – 2012. In 2013, Justin was named Most Admired Business Leader by Management Today as well as Britain's Most Impressive Businessman in the IPSOS-MORI Captains of Industry Report. Recently Justin has taken the interim role of Chairman of Manor Marussia F1 Team, reflecting a lifelong interest in the sport. He has also advised businesses as diverse as 2 Sisters Food Group and Thomas Cook.

(Justin was keynote speaker for the evening)



Helen Browning farms 1,350 acres in Wiltshire, as a tenant of the Church of England, with dairy, beef, pig, sheep and arable enterprises. Her business 'Helen Browning's Organic' supplies organic meat to multiple and independent retailers...and also runs the village pub. Helen became Chief Executive of the Soil Association in March 2011, and prior to that was Director of External Affairs at the National Trust. Helen is also Chair of the Food Ethics Council and has been a member of several important commissions concerning British agriculture and food, including the Curry Commission on the Future of Farming and Food; the Agriculture and Environment Biotechnology Commission; and the Meat and Livestock Commission. She was awarded an OBE in 1998 for services to organic farming.

(Helen chaired the discussion on the evening)
