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Today, I'm going to talk about the consumer and what's next for shoppers in these hard times that we face. I'm going to talk about it in three broad sections: the situation as we have today; I'm going to look at the what the response of that is in terms of what consumers are doing and then I'm going to give a prediction in terms of what the consumers will do going forward.

Let's just put it in context. The grocery market is enormously buoyant market and over the last 13 years has shown very positive growth, typically in the 2-5% range, but it swings up and down within that range. It is very rare that it steps out of this 2-5% and if it does there are some very distinct reasons for this. It never has gone negative - that's a great market to be in. Currently, our sense is that we are sort of at a low growth point and facing a lower point over the next 6-12 months, but this will still be in the range of 2-5% which is a great business to be in.

The market is dominated by four retailers who have really grown their share from 54% to 76% by growing channels to market, through on-line, through convenience etc.

Going back to the consumer – and comparing average earning versus inflation, unfortunately, earnings have been growing at a slower rate than inflation. Actually to put that in context – I'm sorry to bring it down to real numbers - since June 2007 earnings have grown up 9% while prices have gone up 14%.

So that's the context we are sitting in at the moment. So what's the consumer response to that? The consumer has made a number of different choices and while there has been an increase in inflation over the period 2007 – 2011, consumers are still spending and buying more.

So how do people cope? Looking at that same time period, what we are able to do is look at the inflation figure and understand shopper coping strategies to manage their household spend. There's a number of different things that you can do:

You can buy less products or you can buy more products. Typically over the period from 2007 – 2011 people bought more products. What they have also done, is they've gone to slightly more cheaper stores, strengthening the discount sector and retailers such as Aldi and Lidl.. As a result, by definition you buy a different set of products in Aldi than you would at Marks & Spencers or Waitrose and that has a slightly deflationary impact.

There are a lot more promotions and when you buy more products on promotions that has a deflationary impact..

Finally there is product choice, you could trade down in terms of products. We can show that as a waterfall chart, showing how consumers have managed the increase in prices of 20% to manage the increase in household spend at 16%. Principally buying more on promotion and buying slightly cheaper products.

Let's trend that over time and you can see that during the last recession in 2008, people made choices such as trading down from more premium products to cheaper products. Volume didn't change a great deal. It did drop down a little bit but equally we still have to buy everything. As we came out of the period of high inflation, people started trading up, so they moved back out of value.

Since then consumers have moved from that trading up period To a fairly flat plateau, however what we sense a little bit is we have got some trading down in terms of people making choices. Equally during that period, brands promoted a lot and therefore supported their volumes. Actually, over the last two years, the branded growth in the market has grown faster than own label.

If you look at consumer confidence and inflation, when consumer confidence is falling, trading down tends to drop. Equally, when consumer confidence is back on the upward phase, people started trading up and then we move very quickly into our flat phase. It feels like we are at a point again, where we might swap again into a trading down period.

So what's the future? So currently, inflation as we measure it across 75,000 products is about 5.2%. We are predicting by the end of the year, it's going to increase to 6% - if not slightly more. One of our sister companies, TNS, in terms of consumer confidence, they are not expecting an improvement in consumer confidence in 2011. So it feels like we are starting to move into a tougher period. So how will those consumers respond? These were the things we talked about. They buy more stuff on promotion. They go to cheaper stores, They could buy less volume and they could buy cheaper products.

So over the last four years, we've had promotions as a deflationary effect. Cheaper stores – when the recession was in 2008, people went to cheaper stores and then they stepped back out of it.

So let's look at promotions. If I bought a pound of products, how much do I actually pay? Actually, I get 12% off which is combination of the discount you give and the proportion of sales that are sold on promotion. So for every full pound, consumers are only paying 88p. So they get 12% off every time. That's increased consistently since 2006 as retailers and manufacturers have invested more in promotions.

Interestingly, there is a little bit of a dip at the moment. The question is: How far can it go? I sense we are in a calm period before we head towards Christmas, when I suspect there are going to be a lot of promotions then. In terms of promotions I think it will continue to have a deflationary effect but maybe not as great as great as previously.

Cheaper stores, don't forget it is a harder choice to change stores, far easier to change what you buy in store. So at Tesco in the baked beans category, Heinz baked beans are 69p, ... you could go to Aldi, and buy a product for 28p, Tesco standard own label is 37p and their value one that is also the same price as Aldi. So actually, by creating a choice, Tesco is taking away the reasons for consumers to go shop elsewhere.

So cheaper stores is an option. But let's just put it in context and look at the growth of all the retailers, the discounters are important, but actually only one in three households shop at the discounters every three weeks – their growth in absolute terms which is the value, the cash value in circles is relatively small. So they might have a 15-16% growth rate, but actually in real cash terms, the cash increase is the same size as the Big Four who are growing slower. So cheaper stores is an option but maybe not a big driver.

Let's look at volume. I talked a little bit earlier about you have still got the same number of mouths to feed. If we plot volume over time, yes it does move, but it broadly moves around the sort of range: -1% to 2% and our sense still is that volume will... there won't be any dramatic contraction at all in volume. So volume will be flat, maybe a little bit above, but it will still stay in that range. So volume is not a massive mover.

Finally, cheaper products, which is the easiest thing. You change what you buy versus you change where you buy it. If I look at inflation and obviously inflation corresponds to effective

price increases. Inflation at the moment is 5.2. I think the thing you need to remember is there is great variation by area. There is a range from 8% to like 3% by area. Actually what we are predicting as we head towards the year end, is that variation will increase to between 1.5% to 10%.

Finally "What do we think is going to happen?" Promotions will still have a deflationary effect but not as great as previously. There will be a little bit of a movement towards cheaper stores, but not as significant as last time. We still think volume will stay strong but we also think that finally, there will be a slight move again towards cheaper products. In summary Inflation will be 5.5% for 2012 and the market will run at about 2.5% after taking account of the shopper coping strategies

We will have to prepare for a slower value growth next year, especially in indulgent categories.

Thank you very much.