

THE RISE OF NEW-FASHIONED VALUES



We already know that in these difficult economic times, family budgets are under pressure, and that people are working harder to make their money go further. Yet we've seen that having to think more carefully and thoughtfully about household spending, especially on food, has triggered a set of new, positive shopping behaviours across all socio-economic groups and population demographics.

By having to make considered choices, people are rediscovering the shopping and cooking habits of previous generations. Whether they are adapting by planning weekly meals, being creative with leftovers, or preparing more packed lunches, they are finding a new sense of satisfaction and pleasure from being savvy shoppers. And while more people than ever choose bargains and basic products for everyday meals, they are also enjoying the sense of deferred indulgence that comes from saving up and splashing out on special occasions.

But achieving more for less is far from the whole story. People may have reduced their spending, but they care more, meaning that quality, integrity and sustainability are increasingly the drivers that shape shopping choices, as well as prudence. As shoppers consider more carefully the decisions they make, so their expectations of the goods and services they buy increase. Armed with coupons and on the hunt for bargains, they seek not only great value, but also quality and sustainability.

Through evidence gained from independently commissioned research, our own shopping data, and from conversations with our customers, we believe these new consumer habits are not transient fads, but permanent changes in behaviour and thinking. This report shares our insight into this evolving shopper and what we call their 'new fashioned values'.

In many ways this takes us back to our company origins. As a family grocery business, the name Sainsbury's was a byword for trust, quality, good service and affordability. Those same values hold true today, but with bigger and broader expectations from our customers. Increasingly pressed for time, they rely on us to 'do the right thing', whether that be managing supply chains, contributing to local communities or making our company a great place to work.

It is these broader interests and concerns that combine with more careful and considered buying habits to mark out today's shopper. Successful retailers will be those that listen to their customers, understand their motivation and respond accordingly – customer principles need to be the driving force of their business.

Judith Batchelar
Director, Sainsbury's Brand

Unless noted otherwise, all data cited in this report draws on Sainsbury's own sales figures, or Kitchen Dynamics 2012, a report commissioned by Sainsbury's from Mintel using a nationally representative sample of 2,500 parents of children aged between five to 12 years. The field work took place during June to September 2012.

Introduction

Since launching Sainsbury's 20x20 Sustainability Plan one year ago we've seen marked and lasting changes in British shopping habits.

We wanted to understand in greater depth how people are adapting to the increased pressure on their household budgets, what is motivating them to change, and what this signals for the future of the food retail industry.

To discover more, we commissioned Mintel to analyse customer behaviour and report their findings. At the same time, we took a close look at the sales statistics of our 22 million customers to find out what people are putting in their shopping baskets.

Our results reveal emerging 'new-fashioned values', where cost-conscious consumers are rediscovering some of the shopping habits of the past to meet the aspirations of today. We also found customers becoming increasingly 'savvy' about the way they shop, how they plan their week's shopping and the products they choose.

At the same time, as consumers consider more carefully the decisions they make, their expectations have become higher than ever. They want trustworthy, good value products and services that also encompass quality and sustainability.

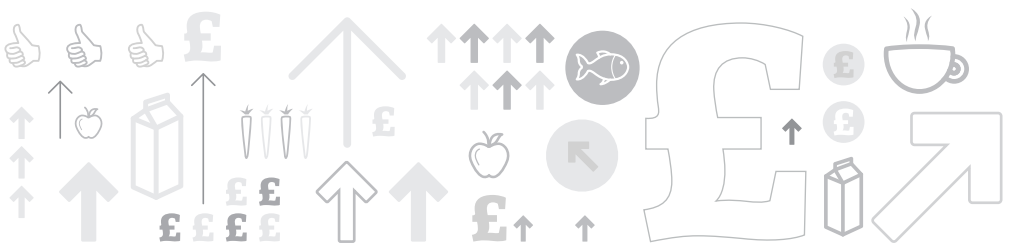
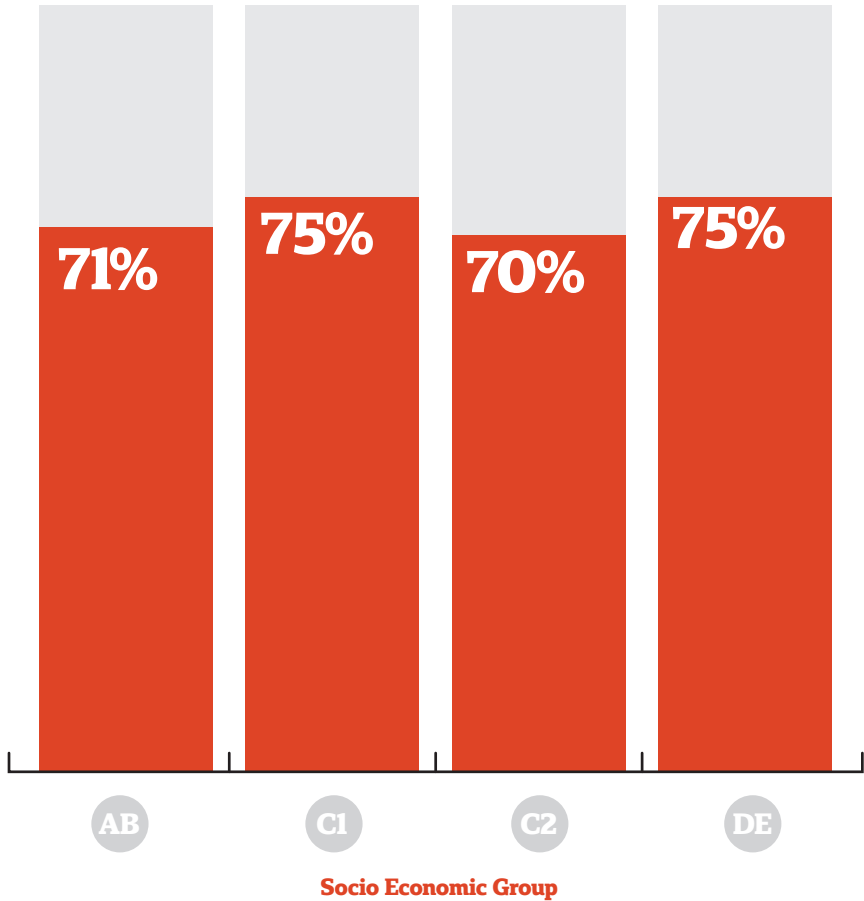
Evidence of change

Consumers are both rediscovering and reinventing the shopping habits of previous generations. Having by circumstance moved away from excessive and conspicuous consumption, shoppers now focus on savvy sustainability.

The 'new-fashioned' consumer wants help to do the right thing and for this to be a part of everyday life in a way that is simple and easy. They want complex questions resolved on their behalf, so they pay a fair price for quality products. And they refute the idea that values have to cost the earth or sit in a special price bracket. These new-fashioned values span all socio-economic demographics. When asked about the importance of doing business in a responsible manner, the number of respondents that marked this as 8 out of 10 or higher, varied only from 70% in the C2 bracket to 75% for C1s and DE (with AB at 71%):

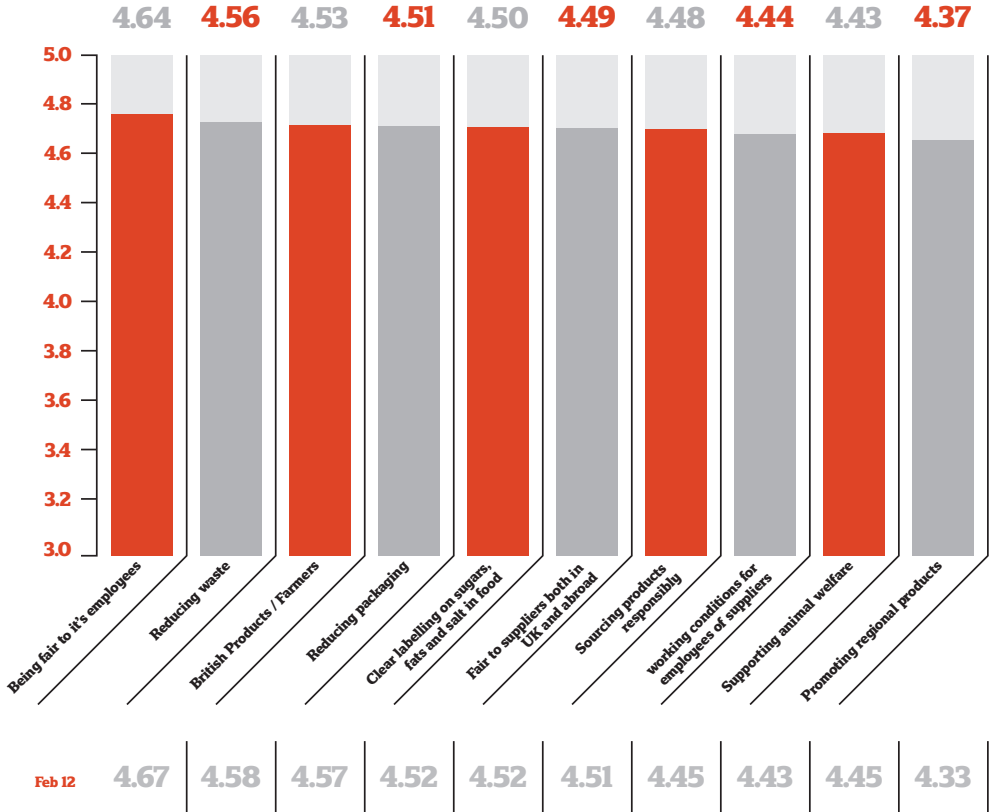
Importance of 'doing business in a responsible manner' by Socio Economic Group

% scoring 8-10 out of 10



When prompted, the most important CR factors (fair to employees, waste and British) remain similar to 2011

All Shoppers



As the world headed into recession most people were betting the credit crunch would lead to a values crunch. But in fact the opposite has happened. Rather than seeing economic constraints cause a cut back in values, we have seen it drive an increased appetite for them. By having to put more thought into what they buy, consumers are taking a greater - not lesser - account of what personally matters to them.

Our research shows that over the past year, 83 per cent of people have changed their shopping habits in response to squeezed family budgets.

Of respondents questioned, planning seems increasingly important:

Nine out of ten people (90 per cent) say they now write a shopping list before they leave the home.

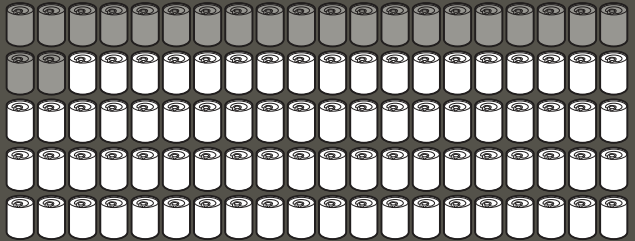


More than one in four (28 per cent) are now taking a packed lunch to work.



Looking out for offers, or ways to make the household budget stretch further, is also more popular. Respondents said:

More than one in five, or 22 per cent, buy more dried, tinned or frozen food to save money. Sales of canned meat, fish and soup have increased by 4.9 per cent in the last 12 weeks (November 2012).



Nearly two thirds, or 64 per cent, look out for more special offers.



45 per cent buy bulk food when it's on offer.



Case study Andrew, Newcastle

Andrew lives in Newcastle-on Tyne with his wife and two daughters, aged eight and ten.

Last year Andrew was made redundant from his job. And while he's since found new work, it doesn't pay as well. So he and the family now have to think differently about how they shop. This means more planning, getting together a rough idea of the meals they'll eat over the week, and making a list so they know what food they have to buy, especially fruit and vegetables, so they minimise waste.

They keep a sharp eye out for bargains, including food that's close to the use-by date and reduced in price. Andrew especially likes a three for two offer, and stocks up on tinned food when there's a deal on. In fact he can't remember the last time he paid full price for a tin – if there's no saving he simply doesn't buy it.

Five characteristics of 'new-fashioned' values

1

Savvy sustainability

Our research shows that consumers are readjusting how they spend their household budget, and while shoppers are willing to save on everyday products, they are also showing a growing tendency to 'save and splash out' on treats or for special occasions. Our own sales data suggests that, while shoppers are shrewder, they are still willing to spend more on special occasions such as Christmas, Valentine's Day and Halloween.

And although people may have less disposable income, they still want to live well. Some 22 per cent of respondents say that rather than go to a restaurant, they treat themselves to indulgent food at home because it's cheaper, often choosing from premium retailer ranges. For example:

"I love the responsibly-sourced products. Even on Basics range salmon and fish, it has your responsibly sourced label. Whereas in a lot of places, you have to compromise on your morals to afford sustainable products, in Sainsbury's, you don't."

- Sales of our fine wine increased by 20 per cent year-on-year (November 2012).
- Sales of Taste the Difference bistro ready meals increased by 52 per cent year-on-year (November 2012).

We are also seeing a greater trend in consumers redeeming Nectar points at important times in the calendar, signalling how people are finding ways to buy extend their budgets and afford treats for special celebrations.

However, whether buying from basics or premium ranges, customers still want to feel good about what they buy. Besides value for money, they want products that offer integrity. People tell us they want ethical and responsible sourcing to be part of a supermarkets' mainstream offer, not something reserved for premium lines.

“Everybody would like to be ethical, but some people just can’t afford it. But you have your Basics brand so if you are on a tight budget, you can still come to Sainsbury’s and get your weekly shop.”

“What Sainsbury’s are doing is making it more affordable and accessible and more mainstream to do these things.”



1 Source: Customer listening groups, Merton store, Friday 26th Oct 2012.

2

Values re-evaluated

The evidence suggests that one of the positive results of straightened times is a genuine deepening of values. The credit crunch has not led to a values crunch and customers do not accept that an economic downturn is justification for abandoning issues such as high animal welfare, Fairtrade or sustainability, even in economy products.

Our sales data confirms these views. Despite shoppers being more sensitive to price, we have sold 8.5 per cent more sustainably sourced food in the last 12 months². And the number of customers making these sustainable choices has increased five per cent.

Our data shows sales growth in many 'ethical' lines, from higher animal welfare to Fairtrade and those with health or environmental benefits.

It is a misconception these issues concern only shoppers with plenty of money in their pocket. Just because people have less, they do not care less. At Sainsbury's we are aware it is not only shoppers with higher incomes making these choices.



More than £1 in every £10 spent on our sustainably-labelled products comes from families on the lowest incomes. The highest participation in Comic and Sport Relief and in FareShare is from stores with the lowest demographics. This confirms the finding of an online survey carried out by ABA Research in May 2012 – customers of all socio-economic groups expect supermarkets to do business responsibly.



“I want quality, I want freshness, I want offers and to be able to buy my products. Doing the right thing is important.”³

² An average 8.5 per cent increase across Woodland, Palm Oil, Red Tractor, Marine Stewardship Council (MSC), Forestry Stewardship Council (FSC), Fairtrade and Freedom products.

³ Source: Customer listening groups, Merton store, Friday 26 Oct 2012.

3

Act for me

People have greater, more exacting expectations of companies. They have less time, but more questions. They probe further for answers and, largely through digital media and social networks, are far better informed than ever before.

Consumers want retailers they can trust; ones who confront, champion and successfully deal with difficult questions or issues on their behalf. Shoppers will naturally gravitate to retailers that tackle issues they care about. If they feel a company 'acts for me' they believe their shopping choices are simpler and easier. And they will continue to choose brands from companies that show they are willing to listen.

"I think if you could just immediately trust the supermarket to take care of these things for you, so you don't even have to think about it, that's really nice. Then you do feel that you are supporting doing the right thing in some way then, just by shopping in that supermarket."

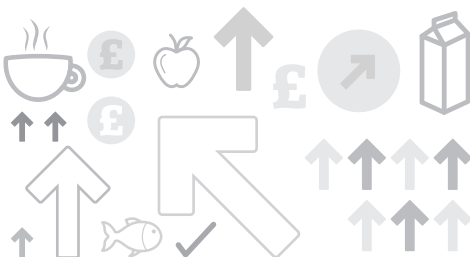
"I just feel that I like to understand everything that is in a product. When I'm doing my weekly shop, I don't have time to look at every single ingredient."

4

Healthwise

We aspire to lead healthier, fuller lives. Yet modern family life isn't simply busy, it's hectic. Parents juggle the demands of work while running a household, meaning meals are often eaten at different times

by family members. Then there are school runs, and clubs, leisure pursuits and social engagements to fit in. All of which make it ever more challenging for parents to ensure that the nutritional needs of their families are being met.



Health is now a mainstream consumer issue, although people are often seeking 'healthier' rather than the 'healthiest' options. People want simple, affordable and time-sensitive choices that are still rewarding and satisfying. Consumers' responses to our campaigns that combine healthy eating with ways to manage household budgets are proof that the modern shopper wants not only good value, but also healthy and ethical choices.

5

Close to me

People are also reconsidering what matters to them. While there is nostalgia for simpler times, marked by the increasing popularity in home-crafts such as baking and sewing, people are also placing greater value on their communities. There is a sense that, while global issues have become increasing complex and difficult, people are placing greater importance on local matters, because doing so gives them a greater sense of control and trust. They place a higher value on what touches them and the lives of their family, friends and community.

Most noticeably, the Queen's Diamond Jubilee and the London 2012 Olympic and Paralympic Games created a huge surge in optimism and a renewed sense of purpose and community spirit. There was a shared feeling of 'things may be tough, but life is still good and we can enjoy great times together'.

Customers are showing more interest than ever in supporting charities and community causes. In difficult times, we are getting record levels of donations to both Sport Relief and our Million Meals Appeal. But more than raising cash, people are becoming active participants in local issues – as individuals they are placing greater importance on being a good neighbour, and have the same expectations of the businesses with which they deal to do the same, both locally and nationally.

“Customers are showing more interest than ever in supporting charities and community causes.”



How Sainsbury's is meeting the needs of the new-fashioned shopper

Our research and sales statistics tell us the 'new-fashioned values' of the post-crunch shopper are here to stay. These are distinct and permanent changes in behaviour, and retailers need to respond accordingly. They must meet the demands of consumers who are increasingly skilled at managing the family budget, and believe that good value, quality and sustainability are part of the new economy.

The findings of our research affirm how important our 20x20 Sustainability Plan is to meeting the needs and aspirations of the new-fashioned shopper. Launched in 2011, our ambition is to meet 20 detailed and specific commitments by the year 2020.

The plan helps us ensure corporate responsibility holds a central position in our business strategy. It influences every action we take, right across the company.

And the scale of our business means that when we make a change, the impact is huge. It means we can make a marked difference to issues we know our customers care about, from British produce, sustainable sourcing, and the environment, to health and well-being. It is a commitment that will give our customers the best opportunity to *Live Well for Less*, not just today, but in the coming years.

We were the first retailer to make a move on toilet paper, reducing the diameter of the inner cardboard tube on every roll by 12mm. It's cut the number of delivery lorries off the road by the equivalent of 140,000kg of CO² and uses less packaging, yet there's the same number of sheets and the same quality in each roll.



20x20 provides a clear focus to our work and our five core values:

- **Best for food and health**
- **Sourcing with integrity**
- **Respect for our environment**
- **Making a positive difference to our community**
- **A great place to work.**

In 2011/12, our customers voted us joint first among supermarkets for taking social and environmental responsibilities seriously.

Our 20x20 commitments are deliberately stretching, yet one year on we're already making good progress in many areas. Where we have more to do, we will work with others, especially in tackling issues that are of mutual concern to the food and retail industry, and where collaboration will help us secure faster results.

While many of our goals will take some years to achieve, here are some actions we've recently taken to match the expectations of the new fashioned-values shopper:

Helping consumers live the way they want to live, and making it easier for them to buy what they want

Switch the fish

Since summer 2011 our campaign has encouraged consumers to try different, often cheaper, fish varieties beyond the 'big five' species of cod, haddock, tuna, salmon and prawns. By offering shoppers a free alternative species to take home and try, we have sold an extra 46 tonnes of alternative fish species.

Love your leftovers

We are helping customers save on waste by making practical, safe, no-nonsense changes to freezing guidance. This encourages people to freeze food until the use-by-date, replacing previous advice to freeze only 'on day of purchase'.

Loving ugly fruit and veg

The unseasonal weather in 2012 means many of Britain's farmers are yielding crops of fruit and vegetables that are smaller or irregularly shaped. But our consumers know they taste just as good and have the same nutrition as smaller and blemished 'ugly' fruit.

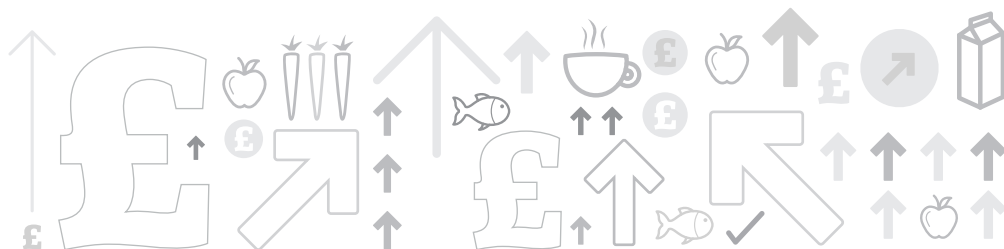
So we've changed our policy, and now buy all British fruit and vegetables that meet regulations and standards. We're encouraging consumers to realise that 'ugly veg' is just as beautiful under the skin. And that by taking just a little longer to peel and prepare, people can minimise waste, support British farmers and champion British fruit and vegetables.

Milk production model

We know our customers value the support we give to British farmers. At a time when it was becoming almost impossible for British dairy farmers to produce milk profitably we led the way in introducing a cost of production model that ensured our milk suppliers to get a fair price for the milk they produced.

Making the healthiest choice the easiest choice

We promote fruit and vegetables in-store through special offers and new products, plus recipe ideas to inspire and encourage all our customers make them part of their diet. So far we've produced 31 million recipe cards giving consumers tips for easy, nutritious family meals on a budget. We led the way in introducing multiple traffic light labelling on front of pack and set tough goals for salt and sugar reduction in our own brand food.



Making sure our customers can be confident about the quality, value and integrity of our products, irrespective of price or range

- Our commitment to Marine Stewardship Council (MSC) certified fish extends right across our range, from Basics fish fingers to Taste the Difference Wild Alaskan Salmon
- We are Britain's biggest retailer of sustainable fish, and all of our own brand canned tuna is pole and line caught
- In 2011 we reduced the fat and saturated fat in the pastry used in our pasties and sausage rolls. This year we have done the same to our biggest-selling mince pie line, removing nearly 23 tonnes of saturated fat from customers' Christmas shopping
- In 2012 we became the first major retailer to move to eggs from cage-free hens in our ingredients. We are still the only major retailer to achieve this
- We inspired 2.4 million children to try a Paralympic sport, through our 1 Million Kids Challenge
- In 2012, our colleagues, customers and suppliers helped us to raise £21.2m for communities
- In September 2012 we launched a world-first, the Norfolk Black chicken. Free range and slow grown, the flocks benefit from a corn diet, access to natural woodland and extra perches and hay bales. The result is a top quality, tender meat with traditional flavour
- Every one of our own-brand ranges of tea, coffee, bananas, sugar and coffee, across all price points, are Fairtrade. Since selling only Fairtrade bananas, we've given more than £15m to projects in the developing world, and guaranteed farmers a minimum price for their crop. This action makes us the world's largest Fairtrade retailer, and our sales account for almost a quarter of the UK's Fairtrade market

Learn more:

www.j-sainsbury.co.uk/responsibility

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