

Sainsbury's is in a turnaround phase: so what does Sainsbury's stand for today?

In the past, Sainsbury's has been perceived as being more expensive than its main competitors and, it seems, its leaders had accepted this role, believing that the store offered superior quality, innovation (new food ideas) and service and that this justified higher prices. Rivals like Tesco and Wal-Mart Asda had stolen market share from Sainsbury's. And one of the reasons they succeeded was because customers believed they offered lower prices. But in the last year, Sainsbury's have started to re-build market share. How are Sainsbury's achieving this? By becoming a me-too to Tesco? Or by building a differentiated proposition?

Justin King

I think the nub of our challenge is exactly what you said in that question: it contains

some implied assumptions that are wrong in fact and wrong in interpretation.

For example, your question implies that there was a time when Sainsbury's stood for higher prices but that was kind of OK because along the way it was a nicer place to shop, with nicer staff and a bit more innovation, good fresh fruit and vegetables, and so on. And because of all those things, if you ended up paying a bit more for Coca-Cola it didn't matter. That's the implication of the way the question is phrased.

I have a very simple view. There was never a time when Sainsbury's was successful when that was the case. Sainsbury's was successful when 'good food cost less'. And as you know, that was Sainsbury's advertising slogan.

Now, as you know, value for money is a

Making Sainsbury's great again

INTERVIEW

Justin King
London, UK

To maintain or transform a company, the starting point is always the same. It's all about customers and colleagues, says Sainsbury's CEO Justin King.

very complex, ever-changing thing: it changes for different customers and it changes over time. But it always has two components. The price that I pay is always fair and the quality that I am getting is always at least as good, if not better, than I am expecting. So, 'Good food costs less' was the slogan, and it was that because good food did cost less at Sainsbury. If you bought Coca-Cola at Sainsbury's (and I am talking about Coca-Cola in generic terms, as an icon brand) you paid the same as elsewhere. And if you brought fresh food at Sainsbury's it might cost a little more, but you got a lot more in terms of quality.

So, in designing our future plan we have revisited that slogan to say, internally, that we want to deliver 'Great food at fair prices'.

Why the change?

Well, first of all, we are not talking about advertising slogans. I doubt whether we would ever use it as an advertising slogan. I think advertising has moved on from that. In some ways 'Good food costs less' was very literal.

So why Great Food at Fair Prices? Well, first because good is now the norm. Back then, the norm was bad food. Now good food is the norm. So if we want to be better, our food has to be great.

Second, customers understand the idea of fair prices. Marketers get much too hung up on this. They ask 'what does fair prices mean?'. Actually, it's dead simple. If you ask customers, they say, 'If I am buying the same product in your shop as anywhere else, then I expect to pay the same price. If I am buying a better product, I expect to pay more. And if it is significantly better I am prepared to pay significantly more.'

But 'fair' means different things to different people.

Yes. At different times. But it all has a common thread. Underneath it, those two themes apply.

But would it be true to say that a perception grew up in the firm that this aura of quality and service could justify charging more, and that this helped the firm get into its difficulties?

Before I answer that let me say one thing. I am nearly two years into the business. I don't want to commit the sin of most politicians, you know, that many years into their tenure they are still blaming their predecessors for everything that goes wrong. I'm not interested in doing that.

Fundamentally though, you are right. The business convinced itself it could get away with having slightly higher prices, because the shops and products were

Before, Sainsbury's had a slogan 'where good food costs less'. And when Sainsbury's was successful, good food actually did cost less at Sainsbury's.

slightly nicer and slightly better. But as I said before, when we said 'good food costs less' good food did actually cost less at Sainsbury's. I can show you graphs of our relative prices over a sixteen year time frame that demonstrate this.

So, it is the parable of the boiled frog: it didn't notice things changing. Also, however, the business took some quite conscious decisions. As you know, in the short term price elasticity is nowhere near as geared as promotional elasticity. If you do a two-for-one promotion, tomorrow people buy a lot more. But if you shift your pricing subtly, sales level don't actually change much tomorrow, next week or next month. It takes three, six, twelve months for the effects to show through.

When I was at Asda, when we made our very first price investment in produce, it took around 2 years to get back to where we started in terms of turnover. That figure - 2 years - was imprinted on our brains! That's how long price elasticity can take to show through.

Now, the converse is also true. You can start fiddling with your prices, letting them drift a little, and you can convince yourself it's not hurting because it takes a long time to show through. And by the time it does show through, the chances

are you've long lost sight of what you did to cause you all these problems in the first place. It just becomes part of a general malaise.

That is what happened in this business. Broadly speaking in the 13 or 14 years before I joined, it lost market share every year.

This crept up on the business slowly over time. It became a strongly held belief that there was something inherent in the brand. And this was underpinned by the perception that our quality was better, our innovation was better, our service was better. So we were able to rationalise why we had a slightly different pricing structure.

But in the end customers are pretty rational - very rational in fact. In the end, if there are real, substantial benefits, people are prepared to pay for them. If you think people are prepared to pay more for Coca-Cola just because it says Sainsbury's over the door, then think again.

Now, even there, there are levels of sophistication. For example, one thing customers completely understand is promotions. Although most customers would not use the language of EDLP to describe what Asda is doing, they will tell

Justin King is CEO of J Sainsbury's. This interview was conducted by Daniel Corsten and Alan Mitchell.

It is the parable of the boiled frog. It became a strongly held belief that there was something inherent in the brand, so it could charge more.

you that, overall, day in and day out, Asda is cheaper, though Asda doesn't have the deals that Tesco, or Morrison's, or indeed Sainsbury's has.

Could a customer ever tell you that, if you add up your Coca-Cola purchases (or whatever) over the full year and factored the promotional prices in, that the price of Coca-Cola is actually the same in Asda as it is in Sainsbury? No, they couldn't tell you that. But I am absolutely sure that if you didn't deliver this level of price parity, then over time, that would hurt.

So, if you go into our stores, for, say, 40 weeks of the year, you may find Coke cheaper in Asda than you would in Sainsbury's. But for say, 12 weeks of the year you will find Coke cheaper in Sainsbury's. Why do we do it this way? Because Sainsbury's customers are different - they have a higher propensity to buy promotions than Asda's do, because Asda's customers are slightly less affluent, and therefore slightly less able to take advantage of promotions when they happen. That is the insight that leads to EDLP. That if you are taking all you can of what your customers spend on food in a week, if you promote all you do is spread the same money around the store in an inefficient way. That's a pure ECR-like definition if you like. In that environment, EDLP is efficient consumer response.

But Sainsbury's customers tend to be slightly more affluent and slightly more promiscuous. They shop in other places, and they are often more financially able to buy say three pots of Nescafe at £5 a piece, without having to make a calculation about whether they will be able to feed the kids that week.

So we will always have more promotions in the mix, for no other reason than it reflects our customers. And that will contribute to a slightly less efficient supply chain than Asda are able to enjoy. So all this becomes iterative. You do it because it is best for your customer, and if it wasn't best for your customer, you wouldn't be able to sustain the costs that allow it in the first place.

With Asda on the other hand, all the costs they incurred in promoting was delivering something that their customers didn't value.

So what was it like moving from Asda, to Marks and Spencer's, to Sainsbury's ?
Well, if you were to describe the right experience to equip yourself with as much knowledge as possible to be a Sainsbury's chief executive, I think you would describe something that looks quite like my career.

This was a conscious decision. First

Promotional elasticity works fast. But if you shift your pricing subtly, sales levels don't change much. It could take a year for the effects to show through.

work for suppliers, then in retail. That's incredibly helpful. I worked for Mars, Häagen-Dazs and Pepsi. And then once in retail you would want to be exposed to a price dynamic [Asda] and a quality dynamic [M&S]. So here I am, having done that. It helps tremendously.

How has it helped?

I think the one thing you really learn is that brands are about customers. People often ask how it is that all these people from Mars in the 1980s have gone on to all these jobs all over the place? I believe two things mark them out. First, is an absolute obsession with the customer. If you make decisions based on what is right for the customer, in the end that will be the best thing for the business and its shareholders. Second, a true belief that people are the most differentiating resource in your business. Mars was absolutely obsessive about their customers and their colleagues (or associates as they are called in Mars). If you learn your leadership skills in an organisation like that, actually, they are completely transportable. Customers and Colleagues. Customers and Colleagues. Customers and Colleagues.

So whether I am working for a retailer with a high price/quality philosophy like M&S or a low price/quality philosophy like Asda, actually that is irrelevant

because your obsession is your customers and the people in the business.

But before you were working in highly successfully businesses. Now you are faced with a need for a fundamental transformation. That's very different, isn't it?

I don't believe so! Whether you are trying to maintain a successful company or transform an unsuccessful company, if you don't start with customers and colleagues I don't know where you start. The underlying skills are the same, I believe. They come back to those two core things: customers and colleagues.

What were the biggest challenges engaging Sainsbury's colleagues?

I think the biggest concerns were quite personal. As part of the plan we said there were going to be significant central redundancies. There were 2800 people in this building and we gave them three months notice, saying that 750 of them would be made redundant. People asked me about the morale implications. But in my experience the people inside the organisation get to the fact that change is necessary long before the management get round to implementing and executing that change. I didn't see any lack of realism when I went around this business. People knew that it was failing its customers. So when somebody at the top

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says 'these are the problems and this is what we are going to do about them', even though they might be the person to lose their job, most will say Halleluja! Because there is nothing worse, I believe, than working in an organisation where you believe that it is failing, and the people at the top are not providing you with the leadership that you need. That is a horrible place to be!

I had any number of people who came up to me and said, 'I am one of the people you have made redundant but good on you. You've bitten the bullet. I wish it hadn't happened to me, but at least I can see something is going to change around here.'

So what has been your major achievement since then?

What we said we would do: fix the basics, create - or recreate - universal appeal for our brand, and a more customer-focused culture. And on all three counts we have more than exceeded the goals we set ourselves.

If you start with fixing the basics, there are many factors, but the most obvious was availability. We had a business that was broken in terms of its supply chain. Our availability was so far off the norm as to be an embarrassment. We tackled *three* things.

First we had to tackle the 'rubbish in, rubbish out' syndrome.

You mean rubbish information.

Information and process because the two are intertwined. For example, at what time of day do you process waste? On a code dated product, if you don't process waste at 10 pm at night, before you go home, the system has no way of knowing whether you have sold it or thrown it away. And until you tell it that you have thrown it away, it won't send you any more. So I went into stores and the conversation went something like this. They were saying, 'No bloody broccoli! Bloody system! How can we not have broccoli on a Saturday!'. And I would walk out the back and there would be six cases of broccoli. So I would say 'you've got broccoli!'. And they would say, 'but that's out of date'. Then I said, 'have you processed the waste?'. And they said, 'we do that on Sundays'.

Well, that's why they didn't have broccoli being delivered. So the first thing we did was to put in place processes in our stores, and up here in our trading teams, to ensure the systems got the information they needed to do the job. And in tandem with that we did a lot of work on the algorithms in the systems, such as their sensitivity to sales, recent and historic.

There is nothing worse than working for an organisation that you believe is failing, that people at the top are not providing leadership you need.

Here's another example. None of our stores had been properly stock-checked for over a year. So we stock-checked every store over a three month period, and rebased our stock data on that. We took a multi million write-off on that. Now, if the system thinks you have millions worth of stock (which you don't actually have), surprise! surprise! It can't work. You can't run a stock system on that basis!

Until we had line-of-sight to real information - sorted out 'rubbish in, rubbish out' - we couldn't make progress.

The *second* thing we did is change the actual physical way we handled product in stores. We adopted a simple policy: if it's in store, it's on the shelf. In its previous manifestation this business had removed the vast majority of its night shift, and we were trying to do most of our merchandising in busy stores. When you try to do that, two things happen. 1) you are unproductive. And 2) you often don't complete the job. So at that time, if there wasn't any stock on the shelf, you could very often go to the back of the store and find it.

Now, if you ask that same question, on the whole if it's not on the shelf, it's not in the store. There is no point in going and looking. We changed physical processes, and we put night shift back in many

stores. This meant better stocking of shelves. It is more expensive per hour but it is more productive..

The *third* aspect we changed was upstream. We changed the back door of our depots, for example. When I arrived something like 40% of what arrived at the back door of our depots was rejected in some way because it was non-compliant. My epiphany was walking into a depot and seeing this pile of product in the corner and asking 'what's that'? And they said, 'it is the reprocessing area. Anything that doesn't get accepted by the system goes over there.'

It could be as simple as a piece of cling film wrap flapping on the side. If you have an automated system, it reads this as being a pallet about to fall over. So it says, 'oh no! We can't have that!' So it stops the line. It's only a simple thing. But 40% reprocessing!

Now, you might have seen our heroes and villains board down in the reception area. Every Monday, when I joined, I would phone the villains' chief execs and without exception, the response was 'we had no idea!'. We had not communicated properly to our supply base the changes that were necessary for these new automated depots to work.

None of our stores had been properly stock-checked for a year. Until we had line-of-sight to real information, we had 'rubbish in, rubbish out'.

If you had a clean sheet of paper how would you design the depots differently? Significantly less automation. Because fundamentally, if you are going to incur cost in the supply chain, then probably the best place to incur that cost is in the depot. The last places you want to incur cost are in your supply base or in the stores. Do you want branded manufacturers having to make products specifically for you? For example, products with different colour backing to their bar codes, just so that our readers can read them? Or would it make more sense to have two bar code readers, one that can read barcodes with a white background, and the other that can read barcodes with a red background?

And again, if we have got the choice between getting it right once in the depot versus putting it right 550 times in the stores, which do we choose? Get it right in the depot. So the whole concept of our automated integrated supply chain - of minimising a very narrowly defined piece of cost (the cost incurred from the back door of our depot to the back door of our stores) - was ... well, fine! We would have made that part of our supply chain the most efficient part of a supply chain in the world! But if you widened it from the point of the manufacturer to the point of purchase by the customer, we were making our supply chain less efficient.

So this is a classic case of non-ECR thinking being applied in a big way. I think so. Yes.

Do you own your fulfilment factories?
Yes, though some of them are now operated by third party operators. We don't call them fulfilment factories, though. We call them store service centres.

But I thought that in principle, that you would want to own the IT systems - the brains - and outsource the fulfilment.
I don't think it matters one way or another. Intellectual property can be secured without ownership in both directions. The key thing to grasp is that we designed an integrated supply chain that started and stopped at artificial points, and that the consequences upstream and downstream were significantly worse than the benefits in the middle.

On to your second focus area - restoring the universal appeal of Sainsbury's. How exactly do you deliver 'great food at fair prices': better food than say, Marks & Spencers, and priced competitively against Tesco and Asda?
In simple terms, we had to ask ourselves, "Why would somebody drive past a Sainsbury's to go to a competitor?" When you looked at price, we were not

The whole concept of our 'integrated automated supply chain' was flawed. It focused on a very narrowly defined piece of cost, and ignored the rest.

competitive. It did make sense for price sensitive customers to drive past us. It would have saved them enough money and made it worthwhile.

There are two ends to delivering price competitiveness. Where price is the key element of value - cheapest on display, for example - you have to be price competitive. It's hard, because it has financial impacts. But you can do it. And second, through range - which is where universal appeal comes in, giving shoppers the opportunity to buy what they want to buy.

So, for example, we had decided in many of our stores to no longer stock cheapest on display. Because we took the view (wrongly) that there weren't enough price conscious shoppers to make it worthwhile.

Now, there is no such thing as a consumer who is only price conscious, just as there is no such thing as a consumer who is only quality conscious. Take cheapest on display orange juice. That is the cheapest orange juice for the price conscious orange juice shopper. It is also the most expensive squash for the squash customer. And it is bought for both these reasons. But we didn't display cheapest on display orange juice in many of our stores.

So we have launched, and continued, a

process of sorting our price basket. We have cut in excess of 8000 prices. We made those changes quietly, throughout 2004. Then, when we had done about 6000, in January we launched an ad that said '2000 further prices cut'. We had to be at the races first. Then we could say to people, if you come to us, you might be surprised at our prices.

The second aspect of the launch was that we trebled the size of our Basics range, and pushed it out to all our stores. So that was pivotal in dealing with the 'fair prices' side of the equation.

If you look at The Grocer 33 [a trade magazine price comparison] a year or two ago Asda and Tesco would have been about £40, we would have been £45-6, and Waitrose £50-51. If you look at it now, they would still be at about £40, and we would be at about £ 41. Morrison's are now often more expensive than us.

The reason why we are a little more expensive is because the list includes many fresh food products, and the reason why the produce is more expensive is because 'my ham or my broccoli is better'. I am completely comfortable with that. So are our customers.

In fact, sometimes we win the Grocer 33 because our underlying prices are close,

It did make sense for price sensitive customers to drive past us. They would have saved enough money to make it worthwhile. That had to change.

and we have more products on promotion.

But the underlying question is, can you deliver those lower prices with the same margin as Tesco?

Today the answer is No. There is a price to be paid for sorting out this business, and we have told our shareholders this. The business that had previously reported around £500 million in profits was going to report around £250 million. But if we do the right thing by customers over time, there will be a reward for shareholders in the future. Our shareholders agree. They knew the business was on a road to nowhere, and they accept that the business needs to be rebased.

But can you reach parity in terms of cost structure?

No. We will never reach that. But we have a different business. We have proportionately more food, proportionately more fresh food, and customers that traditionally buy up the range. So to the extent that we are satisfying our customers, overall we will have a higher gross margin and a higher cost structure. Provided you get the gearing right, we will still have an improving net margin. Now, what I have said to shareholders is that currently our net margin is less than 2% while Tesco's is broadly 6%, and over the next three years we will double the profitability of the

business, as the first stage of the turnaround. This may sound long. Asda's turnaround took many years yet people remember it as taking about a year!

So we had to take some very tough decisions, but we have been able to take them and keep our shareholders with us. We have a very strong level of support from shareholders.

What about the quality side - offering 'great food' as opposed to just good food?

Now, the lead times on quality are longer than they are on price. What we have done over the last 12 months is really starting to take the high ground in terms of quality: the relaunch of our own label ranges: Taste the Difference, our organic range under the SO Organics banner, the relaunch of our Christmas ranges (mostly under the banner of Taste the Difference) and now the relaunch of the Be Good To Yourself range. Also, perhaps most iconically, the relaunch of the Sainsbury's brand under the slogan Try Something New Today. We were saying to our customers and prospective customers, 'we are now confident that our stores are good enough for you to take another look'.

Why should they take another look? The price side is 'don't bother driving past for Tesco or Asda. It isn't worth it'. The quality side is 'well, it is worth driving

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past Tesco and Asda because our quality is better'. And that is why that was such an iconic moment: we were confident enough in our basic operations to invite people back into the store.

So what about building a customer-focused culture?

At one level it sounds very simple. The only place we take money is shops, and the only people who provide us with money are customers. But actually in businesses that fail over a long period of time that simple truth does get lost sight of. Invariably you end up finding more and more excuses to explain why you are not doing the right thing for the customer. And increasingly people forget they are part of a whole business and entrench themselves in their own part, which becomes a bit like a cocoon. You don't really want to go into a shop when the availability is as bad as it was: they were pretty horrible places to go. Why would you want to go and get beaten up by customers?

So the truth is, on the whole, people never visited shops. So when we said everyone was going to spend a week working in stores over Christmas, that was not a radical move in retailing. But it hadn't happened here in a while. So you get a dislocation. The very reason they should be going - to see what it's like and

do something about it - was the very reason they were not going. Because it was so horrible, it was too painful to go.

So firstly, it is about reconnecting the centre of the business with stores. You may have noticed outside, that it no longer says Headquarters, it says Sainsbury's Store Support Centre. We changed the words after we changed the reality, not the other way round.

We did the same with the depots. We said to they could earn the title Store Service Centre rather than depot, when they achieved certain criteria. They have to earn that title by delivery on time and all the other usual supply chain service measures.

So there was this practical reconnection. Part of that was that we launched a suggestion scheme. It's called 'Tell Justin'. We have had 10,000 suggestions. And guess what? Our colleagues told us what was wrong with our business. Over a thousand of those suggestions have been implemented.

We also launched a universal bonus scheme. Everybody gets a bonus by the same criteria. Colleagues in store can get 3% of their pay extra (1% for sales, 1% for availability, 1% for service). Bonuses in the Store Support Centre are set proportionate

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to the number of stores that achieve. That really helps create a customer focussed culture.

A bonus scheme that allowed us to pay out to 110,000 people last year, in a business that has not paid a bonus for five years: did that line up people behind the idea that serving customers, solving availability and driving sales were pretty good things to do? Of course it did!

And then this year we have started to focus on the way our managers behave and lead the business. So we have put our top 1000 managers through the Sainsbury's leadership programme, encouraging them to focus on customers, and focus on colleagues.

Can you give us an example of a leadership behaviour?

One of them is 'customers pay our wages'. As a leadership behaviour, 'customers pay our wages', how does that translate itself? Well, if you have a wages target, and on a Saturday you are tempted to cut your wages but that means you are going to mess up your customer service, what do you do? Do you a) hit your budget or b) do a good job for customers? Now, all businesses find that conundrum unbelievably difficult to reconcile. I'm not saying we always succeed. But I am saying that having these values helps us to

succeed a lot more often. Because if you are a manager you know that 'customers pay our wages' should tell you how to lead.

One of our new leadership behaviours is 'the customer pays our wages'. Leadership principles like this should tell you how to lead.