MIKE COUPE

How Sainsbury's will ride out a perfect storm

Sainsbury's boss Mike Coupe speaks exclusively to Retail Week about how the grocer is weathering torrid market conditions. By **Jennifer Creevy**

When Mike Coupe was appointed chief executive of Sainsbury's in January last year, neither he nor his predecessor Justin King – or indeed anyone in the grocery sector – could have predicted the sheer force of the turbulence that would batter the sector subsequently.

Sainsbury's, and its peers, face what Coupe describes as a "perfect storm" as structural and cyclical challenges convulse the big grocers.

"When I took over we stressed the need for continuity, and if you ask most commentators they would say that we managed the transition very well," says Coupe.

"But I don't think at the time either of us quite expected the level of change and dynamism. It is only just a year ago that Morrisons announced its profit warning and some of the dynamics started changing."

Those structural factors – consumers increasingly shopping more frequently and locally at convenience stores and discounters, as well as the big four's excess space – along with the cyclical issues of food price deflation and falling volumes, still weigh heavy on food retailers today. Even Waitrose – which along with the discounters continued to maintain momentum over the past year – pointed to food price deflation as the reason for its slowing growth earlier this month.

Speaking exclusively to *Retail Week* ahead of his keynote address at Retail Week Live, Coupe says these colossal changes have forced him to speed up decisions at Sainsbury's.

"Some of our plans had to be stepped up or down," he explains. "The reduction in investment in supermarkets, the increased investment in technology and the reduction in the cost base – all of those things we had been thinking about when I took over, but in part the market made us speed up."

Back to normal?

Almost one year into Coupe's tenure (he formally took over in July 2014), things are not getting any easier for the big grocers. But Coupe believes a more "normal" competitive environment will emerge in the next 12 to 24 months.

"We will see volume growth returning and at some point inflation will return too as food will get more scarce and there are large growing populations," he maintains.

But he remains cautious on the timing. While there are some signs that there is a "tiny bit" of volume growth in some parts of the grocery market, it is "very early days and you'd be very brave to call it at this moment in time".

Coupe believes today's environment is the most challenging of his career – which has spanned Unilever, Asda, Iceland and Sainsbury's – but he draws some comparisons with the early 1990s.

"If there is an analogy, then look at 1992," he says. "If you were to look at the headlines then you'd see the discounters Aldi and Lidl had just arrived, Kwik Save had as much market share as the two of them put together, and Costco had just opened. There are lots of similarities."

He also points out that Asda was teetering on the brink of bankruptcy, leading to Archie Norman being parachuted in to lead a turnaround, and Tesco was experiencing a growth "hiatus". "There were also similar constraints on consumer spending, which at that time were driven by high interest rates," he observes.

"Some of the rhetoric is the same then as it is now, such as the death of the superstore. And

For more on the changing grocery landscape, visit Retail-week.com/food

'Evolving to Win'

- Sainsbury's will invest an additional £150m in price – around half in the second half and the remainder in the first half of 2015/16 – and improve the quality of 3,000 own-brand products.
- The grocer will open 500,000 sq ft of space this year and next, followed by 350,000 sq ft in 2017/18. More than half will be convenience stores, and JS continues to target opening 100 convenience stores per year.
- It will expand non-food and partner concessions to fill under-used space and withdraw from 40 schemes in its property pipeline.
- Sainsbury's will pilot new store formats including its partnership with Danish discounter Netto. Other formats will address the balance between food and non-food, ensure stores are convenient and easy to get around quickly, and deploy new technology.
- The grocer will pilot new ways for customers to order and acquire their groceries, including click-and-collect.
- It will deliver total operating cost savings of £500m over the next three years, a step up on recent levels. It will reduce capital expenditure to between £500m and £550m per annum over the next three years.

"The market will become more fragmented as the way people shop continues to change"

like then, while the superstore has to evolve, it is not dead," Coupe says.

Coupe believes it is essential to recognise what is cyclical and what retail leaders can learn from history, while also accepting the fundamental changes to the industry.

"Our top 10 products are almost the same as they were 10 years ago," he says. "And I could bet that in another 10 years' time bananas, bread and milk will still be in the top 10. But the changes such as the rise in points of distribution, more convenient shopping and technology are shaping the industry for good."

Evolving stores

The superstore will evolve to serve a broader set of customer needs, believes Coupe. "Large superstores, great high streets and shopping centres will continue. But equally, poorer shopping centres, stores or high streets will fade away."

He says that while there will be fewer superstores, there will always be a need for them. "We are taking our destiny into our own hands by seeing what the new superstore might look like – whether that is concession partners such as Argos or Jessops, or using our own assets such as banks and phones," he says.

"I'm not advocating that our stores become like department stores but I see a time when they offer a broader range of goods and services that is attractive. And if nothing else it will be attractive because it will be one of the last places where people can shop for those things."

Like the rest of the sector, Sainsbury's is grappling with the shifts in how consumer buying behaviour evolves.

"The market will become more fragmented as the way people shop continues to change," Coupe says. "More frequent shopping started because of cost constraints and continued because of all the options now available to

MIKE COUPE

people, whether that is discount stores or online or anything else."

Coupe points to services such as click-and-collect to offices or subscription-type models "for the things you don't really care about but need", such as toilet paper and cleaning products. Such developments are already starting to happen but, Coupe adds: "There will be many more we haven't even thought of yet."

Rise of technology

Such fragmentation has meant that one of the biggest changes Sainsbury's has felt during the tenures of Coupe and his predecessor is the emphasis on technology. Under King the grocer invested in traditional IT but Coupe is leading the charge in the digital revolution.

A digital lab is being built in the basement of Sainsbury's Holborn head office, with a focus on customer-facing technologies.

Coupe is leading from the front and has become paperless – bar the occasional letter to an MP or customer – and says the increased emphasis on "agile IT" is essential in the new era of grocery retailing.

"We have to be more flexible in terms of technology. This [agile IT] is very different from the industrial scale of the systems we've always used to do tasks such as making sure the lorries turn up on time," he says.

"Nobody has a divine right to exist in food retail"

The digital lab will develop and test ideas such as mobile scan-and-go, or work on technology that, for example, joins up the customer sign-in process – meaning shopping across Sainsbury's range of goods and services will only require one password.

"In the end the things that are most likely to deliver differentiation are customer-facing technologies. We have to strive to be ahead of the game, increasingly pushing the boundaries, trialling in real time," he says.

He cites Sainsbury's Tube station click-and-collect trial as an example. "Our expectations were that it would be Tube travellers picking up their groceries on the way home, but actually it turns out to be people in the local area. So having points to pick up that are easy to get to is the idea, rather than just because you get off at that Tube [station]. You only know these things from trialling them.

"If you look at our competitors they have engineers, digital teams, and are iterating constantly. This is increasingly the methodology that we will have to adapt to."

The challenges have meant straight-talking and calm Coupe has had to make some tough decisions. As part of £500m cost-cutting plans, 500 roles are in consultation at head office and store support centres, a process that is due to conclude imminently.

"It is never easy but it is about getting the right balance," he says. "Our business needs to become more efficient to face into the market. We are looking very hard at how to run the business today and to invest in technology for the future."

Sainsbury's is not alone in its restructure – the rest of the big four face similar challenges. And while Tesco and Morrisons suffered the most last year because of internal as well as external problems, both have new management teams and some analysts believe that Sainsbury's in particular could be the biggest loser from a renewed Tesco.

But for Coupe, a grocery veteran who worked alongside King for the majority of the latter's 10-year reign and is credited alongside him for many of the strategic decisions the business made, the environment "will always be competitive".

Survival skills

"I don't think there is a month that has gone by at my time here when some analyst has not said we were going to be killed by Tesco or someone else," he says. "While nobody has a divine right to exist in food retail, as you can see from history, a competitive market is what makes us better. There were also one or two analysts who said we'd be killed in the recession and we're still here."

For Coupe, the son of an inventor, the first few months in the top job have been a whirlwind but he is confident the Evolving to Win strategy (see previous page) he laid out in November will set Sainsbury's on the right path.

"What we want to achieve is to have a more broad relationship with our customers," he says. "We want to be satisfying a larger number of domestic needs, whether that's car insurance or credit cards, alongside the traditional grocery shopping, and that will help build customers' affinity with the brand. We will be well on that journey in five years' time but it is a continuous journey."

Food retail has changed dramatically since Coupe started out but, despite the tumultuous year, he is facing the challenges head on.

And while it is impossible to see what may be around the corner, he is determined to create a business agile enough to survive and thrive.

Sainsbury's half-year performance to September 27, 2014

Like-for-like sales down	Underlying pre-tax profit down to £375m	Underlying group sales down
-2.1%	-6.3%	-0.3%