



KPMG ANNUAL LECTURE

TRANSFORMING WITH INTEGRITY

Good evening and thank you all for such a warm welcome.

And thank you for the kind introduction Professor (her first name is Nola if you prefer the informality).

For those of you who don't know me – I'm Steve Rowe, CEO of Marks & Spencer.

My M&S career spans the best part of 30 years. I've worked on the shop floor to store manager, run the Home business, led our store network as Retail Director, led M&S.com, joined the Executive Board in 2012 to run Food and then Clothing & Home before becoming CEO in April 2016.

And as (Nola/Professor Hewitt-Dundas) has said – it's great to be welcomed back to Belfast for me.

Being described as a "great friend" to both Queens University and to Northern Ireland is a true honour. Last summer, I had pleasure of receiving an Honorary Doctorate for services to business and commerce from the good people at Queens.

And four years ago, I stood in front of some of you here tonight as the key note speaker for the 2015 Institute for Global Food Security Annual lecture.

A lot has changed in four years and I don't just mean my appointment to CEO.

The world is changing:

- The impact of climate change is manifesting in more extreme weather events and the effects are being felt by the communities that supply our industry. Last summer the UK was wracked by one its worst ever droughts, causing turmoil in our farming sector, as yields and quality suffered.
- Global population has increased– put simply since 2015 there are over 300million extra mouths to feed in the world.
- And four years ago, the public had yet to vote in the EU Referendum. Now we face into the reality of a no deal Brexit – putting new and complex challenges on a global supply food chain.

The customer is changing:

- Dietary habits are shifting – the number of UK consumers following a Vegan diet quadrupled to 600,000 by 2018.
- An episode of the BBC's Blue Planet 2 in 2017– has catapulted single use plastic to become a consumer lead issue.

- Customers are empowered with the digital tools to dig deeper and make greater demands for transparency than ever before.

The food industry is changing:

- From Amazon to Deliveroo – there's been a fundamental shift towards online. As time poor customers rely on direct to home delivery - online Food sales surpassed £11bn in 2018
- And there's the continued march of the discounters. Kantar predicts Aldi and Lidl to have a combined 15% share of the UK grocery market by 2020.
- Food is an increasingly competitive game. Pressures are high, margins are low, and customers are, quite rightly, ever more demanding on product, price, convenience and service.

Then I could point further

- Changes in data and an incredible use of data give us tremendous opportunities but also give companies tremendous responsibility for safe keeping of customer data.
- And the high streets have changed too. Once busy and thriving places many are desolate as a result of changes in customer behaviours, lack of economic wealth and poor local and government policy

And M&S is changing:

- Against these formidable external head winds the change that is needed is transformative, not 'touch of the tiller'.
- We have to face into the single truth – that M&S has not grown.
- And in November 2017, I laid bare a diagnosis of our challenges and announced a five-year transformation plan to make M&S special again.

This is a route and branch review of area of the business which starts with people, structure and culture

Amid this seismic change – which stretches across the markets we operate in, the customers we serve and the very structure of our business – there is one thing that remains steadfast.

And that is M&S' commitment to integrity.

It is integrity that kept us trading in Northern Ireland through the troubles of the 70s, 80s and 90s. We were the first British retailer of note to open in Northern Ireland and in the most difficult years our commitment didn't waver.



And in 2017 I personally joined in the celebrations to mark 50 years of M&S trading in Northern Ireland. It's claimed that on the day we opened our first store in Belfast – it was the busiest opening day ever – with 120,000 coming through the doors.

Since then we have grown our presence, with the opening of two new stores at Belfast Airport and Craigavon and we relocated our Newry store to The Quays Shopping Centre. Our next new store is due to open in Carrickfergus later this year.

In Northern Ireland we enjoy a special relationship with our suppliers, colleagues and customers - especially in M&S Food. We overtrade here with over 7% market share and four of our 21 Northern Irish stores are in our Top 30 stores. In fact, Lisburn is our No 1 Food Hall in the entire business.

We know that it is in part thanks to our history – but also to our commitment to local sourcing and produce and of course the commitment of our colleagues who work in Northern Ireland.

We work locally with 12 Northern Irish suppliers, some of whom, Avondale Foods for example, have been working alongside us since we opened our first store on Donegall Place in September 1967.

Given the title of my lecture, it might seem odd that I have kicked off with the past.

But alongside quality and innovation, Integrity is the cornerstone of M&S. It is the foundation from which we have built our business.

When M&S first started selling Food in 1931, our then Chairman Simon Marks – would not allow food to be sold under the famous St. Michael logo, for genuine worry was that the food we sold would damage the brand due to its inferior quality.

Our archives show us that post the Second World War, when rationing impacted food quality even further, M&S came very close to dropping the sale of Food altogether.

But Simon Marks was not a man to give up easily – he set the business a challenge to develop and sell food of a standard of which M&S could be proud.

In an industry that was riddled with poor hygiene, lack of quality control and inefficiencies, this was no mean feat.

Thank goodness, that the team at the time, led by a now legendary Food Technologist Nathan Goldenberg, rose to the challenge.

Starting small, specifically to improve cakes to the point that they could be retailed under the St. Michael logo, they went on to leave no stone unturned in their quest to



radically improve M&S Food. Ingredients, processes, machinery, supplier relationships, packaging, storage, transport, display - they tackled every aspect of our Food business. And the results are history.

Far from dropping Food, we went on to revolutionise not just our business but the lives of our customers.

In 1960 – when fresh poultry was viewed as a high-risk product - we were the first major retailer to use cold chain process to bring fresh, tasty chicken to our customers.

We have introduced new flavours and cuisines; launched brand new cooking techniques and set new standards. Be that as the first retailer to convert all eggs we sell to free range in 2002 or leading the market with front of pack traffic light labelling for customers in 2004.

M&S has pioneered and shaped the Food industry from which we all now benefit.

Today, we face a similar challenge. M&S Food is at the foothills of a similar programme of change with a very different cause at its heart. Since the days of Nathan Goldberg, we have proudly maintained our quality standards.

We know that our quality – we are consistently ranked best for quality by customers – is what gives us our USP. What has historically set us apart from the pack.

Customers say – we know you are the best – and historically they've been willing to pay that little bit more.

Today however, many are asking is the difference in quality worth the difference in price. We all know from experience in 2008 that customers attention to ethics falls sharply when household cash comes under pressure. In that year sales of organic produce fell by around 30% as recession kicked in.

In today's highly competitive sector, it is no longer enough, and we know where extreme price pressures exist or where there are high value commodities the risk of substitution exists.

M&S Food needs to transform again in order to stay relevant and compete. Under our wider business transformation plan, we have set ourselves a clear challenge to radically reshape our Food business whilst retaining our stance on quality, innovation and standards.



Put simply, our Food MD, Stuart Machin has a clear goal to “Protect the magic of M&S Food and transform the rest.”

It is a much-needed plan.

We need to better serve our customers with sharper prices, better availability and the right innovation. Be that our Plant Kitchen range to serve the growing demand for a plant-based diet or increasing our family appeal with Saturday night-in deals.

We need to work more efficiently with our suppliers, reducing the complexity of working with M&S and the cost of doing business with us. And we need to be online and instore to deliver this.

One thing remains true though; again, going back to our DNA, we are changing our business for the better, but we are committed to doing so with integrity.

Knowing that this is our foundation – even during times of radical upheaval - allows us to widen the scope of change and gives us permission to take risks – just like Simon Marks and his team did.

This boldness applies at every level of the business.

From a product perspective – this means delivering new and relevant innovation at pace without compromising our standards.

Take the example of “*Our Best Ever Prawn Sandwich*”. M&S sells over 100 million single sandwiches a year and in 2018 – we set a simple brief to create a new best-selling sandwich line.

We took it from concept to shelf in a record six weeks – whilst upholding every single standard of quality testing. We have maintained full nutritional and microbiological testing as well as maintaining shelf life.

The risk – and the investment – paid off. It was the first new sandwich to enter our top five in over a decade. It is now our top selling sandwich line, and what's more, our 21st biggest selling line in the whole of our Food business.

A small but real example of how we're working to unlock growth in our food business and deliver a result that is better for M&S, our suppliers and our customers.

The same applies at a strategic level.

As I set out earlier - online Food has become a mega business predicted to be worth £17bn by 2023.



It is the only channel that is predicted to grow, and it is predicted to capture over 20% of UK market growth, despite only accounting for 7% of total grocery spend today.

M&S was not part of this.

We'd dipped a baby toe in the water and trialled servicing customers with home delivery from a couple of stores. It taught us as much about what we shouldn't be doing as what we should.

I have always believed that M&S Food could and should go online. But for me it was a question of how to deliver this for our customers - and our shareholders - in a sustainable, profitable way with scale.

M&S Food has an average basket size of around £13 – nowhere near enough for an online business and our trials saw this lift to an average of around £60. Better but still not enough to launch an online business with integrity.

In Ocado we have found answers to the questions that have held us back, prevented us from going online and allowed our customers' online share of wallet to go straight to our competitors.

M&S Food has over 12 million customers. Between them they account for one third of the online grocery spend – none of this currently comes into M&S, but £400m of it is spent with Ocado.

They are the experts in online food retailing – they serve over 700,000 customers. It's a £1.5bn business – and it's growing. They have developed the technology needed to crack this difficult, service-led sector whilst achieving an average basket size of well over £110. Almost twice that of our trial.

Which makes this a transformational partnership for M&S Food.

It's our biggest, boldest move to date. It combines the strength of the M&S brand and our industry-leading, innovative food offer with Ocado's unique and proprietary technology and product range to create an unrivalled online offer for UK customers.

I know what you are thinking – not in Northern Ireland.

Yet.

One of the many synergies that the relationship brings is complementary geographical strengths and balance to each business. It's disappointing that Ocado isn't here yet. But M&S is. And we know how strong our brand is here and how deep



our customer relationships run. Like in other areas, where we are strong, Ocado has opportunities to develop and vice versa.

And whilst I can't put a timeframe on it today – I can promise you that we will be looking to Northern Ireland and the opportunity to establish an online offer through our JV business with interest over the coming years.

And it will enable faster testing of new product development – akin to our best-ever sandwich – with significantly reduced trial and development costs.

We believe our future is brighter and more secure thanks to our newly formed partnership. It is the key to unlocking growth for M&S Food in the UK's fastest growing channel. For us, no other strategic option could have delivered us profitable scale on day one.

The extra volume that will be generated to M&S Food Suppliers as they pick volume previously held by Waitrose is also important in securing their growth and their future.

In my 2015 lecture, I told you that acting with integrity is no longer a nice to do moral choice, it is a business imperative.

Now, as CEO, I stand by that with even greater conviction.

I believe integrity has an intrinsic business value and the more we share it, the more people push themselves even harder to do the right thing the more we all benefit

Integrity is not just about food safety – it touches everything we do and with that there is a double win, commercially and ethically.

Let me explain further what I mean by this.

We spend a considerable amount of money (£128m) with our suppliers here in Northern Ireland and it is growing significantly year-on-year.

But we also know when market conditions are tough it puts economic pressure on our supply base.

And we need a thriving supply base to work with us to help deliver our transformation.

So, we have used our partnership with HSBC to accelerate payment terms to suppliers and make supplier credit available.



This benefits small suppliers who often struggle for cashflow and will likely be paying higher bank rates due to levels of borrowing and overdraft facilities.

And we have committed to developing a formalised joint business plan with every supplier whose turnover exceeds £10m.

These plans are built together to reflect a joint ambition to drive sustainable, profitable growth and are translated into targets and action plans, which are reviewed monthly by our Heads of Trading and the supplier commercial leads.

We have backed this up - with a fair and transparent approach to supplier payment terms. In addition to prompt payment - we have put the onus on our teams rather than the supplier to resolve any invoicing disputes or issues.

I take personal accountability - if a supplier believes a payment issue is outstanding. We have a direct hotline for suppliers to me - or my Food MD Stuart Machin.

That's how important we believe it is.

Integrity is about never being complacent - even when you're leading the pack - to hold that commercial point of difference when the rest are in pursuit.

For example, during the horsemeat incident in 2013 we were using DNA traceability on our Aberdeen Angus programme checking the right breed was in the pack not the right species! We've now extended this so that every single piece of beef can be traced back to individual animal and farm.

This isn't just to ensure integrity, key though that is. It is really based on managing the end to end supply chain, ensuring our farmers are upholding our standards that the maturation windows, so critical for eating quality are never compromised.

We have then invested in the next phase, following the logic that if you know where everything comes from then knowing where everything is at any point in time is possible. This would enable us to plan the business much better and utilise the production from our farmers and growers to much better effect.

As ever with pioneering work it hasn't been a smooth ride and our first project didn't deliver the outcome we had planned for.

Undeterred we are working with a new partner using different technology to follow the flow of goods from supplier to individual customer. Once this has been proven then we can take this back into the upstream supply chain.



Doing the right thing isn't always the easy thing or the most cost effective.

But losing consumer trust can be the most-costly mistake of all.

Let's look at allergen labelling.

Food law is complicated and has evolved over many years mostly with the right objective in mind. You will all be aware of the recent allergy related issues that sadly led to tragic loss of life.

Why did this happen? Because there is a regulation loophole that allows products made in store to be exempt from labelling regulations.

At M&S are very clear this law was designed for sole traders not for a national or multinational food businesses like us. Our view has always been that it doesn't matter if the product is manufactured in store or in a factory. We need to ensure customers have all the relevant information they need.

We didn't take the shortcut we invested in our operational and technical teams and systems to enable us to provide the right information. Not the easiest, quickest or cheapest, but the right route.

M&S hasn't chased the quick win headlines on subjects that need the hard yards of integrity.

Let's take Palm Oil – I do not need to tell the audience in this room - that palm oil production has been associated with significant deforestation and habitat loss. Nor do I need to tell you that it is one of the most efficient oil producing systems.

At M&S – we could have banned palm oil – and made a commitment to eradicate it from products.

But as one retailer found out – this is not the easy answer. And removing your brand logo from your packaging to deliver a commitment is not the way we have or ever will do business at M&S.

So, at M&S we have removed Palm oil wherever we can and where we can't find a viable alternative - we use certified sustainable palm oil and its derivatives.

We have stepped up to the table and have been part of the RSPO coalition for over a decade and are actively working with other brands to improve performance of the industry and deliver a shift to sustainable palm oil production.

If we walked away everytime there is some hard work or tough talking to be done –



the void would be left by people who possibly care less and are willing to take the short cuts.

As a leader, of a responsible business – integrity is the north star to guide you through the headwinds of change and the threats to transformation growth.

Here in Belfast – you are on the frontline of the very real and looming spectre of a no deal Brexit.

We have made plans accordingly to protect our customers, our supply chain but also to protect our standards.

The tariff overlay is not clear - there are some oddities in the detail whereby Gouda is tariff free and cheddar isn't.

This lack of clarity is a potential incentive for people to cut corners.

In the face of intense commercial pressures - a supply chain that succumbs to this temptation – or make bad judgements in order to save a penny is a genuine risk to the integrity of our industry.

As Chris Elliot knows – and hopefully some of you are members, M&S led the creation of the Food Industry Intelligence Network which was a recommendation in the Elliott Report.

The Network has been operational since 2015 and the members share data and intelligence on fraud and adulteration risks.

This has moved on and there are Intelligence Sharing Agreements in place with the Regulators of Ireland, Scotland, England and Wales. We all share our intelligence through a Regulatory Forum chaired by my Technical Director Paul Willgoss. They are currently workshopping the incremental risks from no deal and tariffs together and ensuring any intelligence flows are open.

Because let's be very clear, integrity never stands still – from the real impacts of climate change on our suppliers to the explosive growth of consumer interest in issues such as plastics, food waste and a plant-based diet. Issues that were once felt distant or niche have become mainstream, at the heart of how we run our business.

Responding to the challenges a changing world places on our global food supply chain will force us to rethink, ask the hard questions and challenge consumer perceptions – of what is good and what is bad.



Be that the role of biotechnology when global consumer demand will soon outweigh supply or the need to address the consumer vision of a countryside idyll versus the commercial case white box urban farming.

Indeed - the challenges are too big, and the stakes are too high to believe that anyone can do integrity alone.

As much as I believe M&S is a leader on food integrity we have to be humble too and recognise that we are part of a wider food system. And if confidence and trust in the wider food system is eroded we will suffer too.

That's why we've been working with the Consumer Goods Forum and its members, companies such as Walmart, Nestle, Mars, Metro and Unilever, to tackle global issues such as preventing deforestation sourcing; and tackling forced labour. Issues we simply cannot tackle in isolation.

It's no coincidence that I am giving this lecture here in Belfast Queens University which has rightly earned a reputation as one of the world's leading research centres and I am pleased to say one of our key partners in helping us tackle the challenges facing the global food supply chain.

(And I am delighted to announce today – [that we will be offering a new placement programme for Queens students – to work with our Food technical team in building our supply chain resilience.] Paul W can handle 3!!

This is a pivotal period for us – as an industry and as M&S. The speed at which we are changing is rapid, the breadth of what we are changing is wide and we are tackling it all with integrity.

Thank you. I am now very happy to take your questions.