OVERVIEW OF THE UNITED KINGDOM MARKET

November, 2000

CORIOLIS RESEARCH

The nature of British consumers is undergoing fundamental changes

- **I. In the United Kingdom, a large number of demographic clichés are true**
- **II. The UK is rapidly developing into a post-industrial economy**
- **III. Meat and three vege are being replaced with Tandori chicken and mangoes**
- **IV. Food retailing, especially by supermarkets, is highly competitive forcing the various chains to differentiate themselves by targeting specific customers**

There has been a fundamental shift in the characteristics of the UK consumer

FUNDAMENTAL CHANGES IN THE CONSUMER

1950s	2000
Nuclear family	Singles, Smaller households
Young mothers	Children later in life
Women at home keeping house	Women in the work force
Food at home	Restaurant/cafe culture
Meat and three vegetables	Vegetarians
Pie and a pint	Healthy living
Industrial nation	London-based service economy
Rising middle class	Rich getting richer
Monoculture	Multicultural
Local	Global

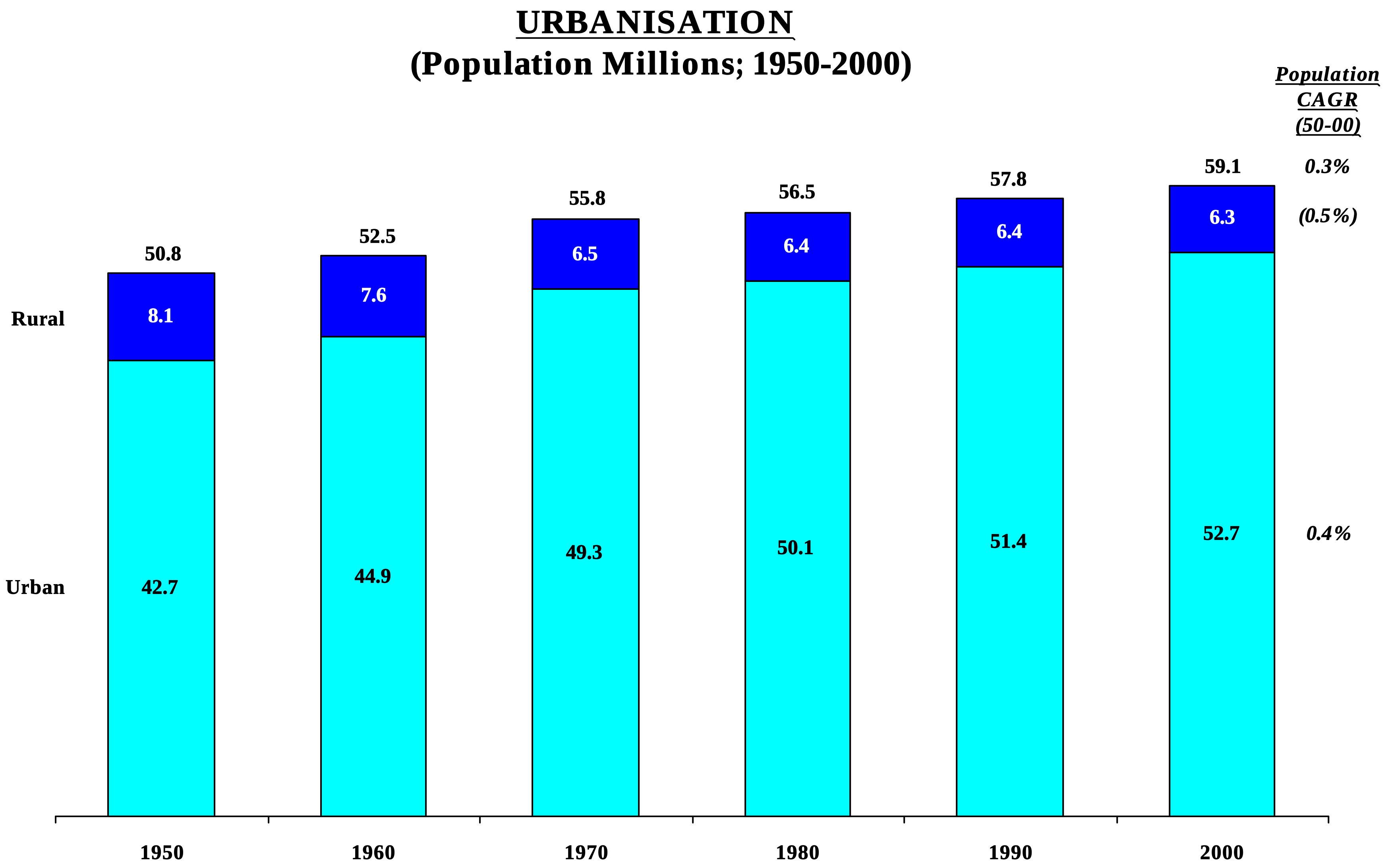
I. In the United Kingdom, a large number of demographic clichés are true

- **The United Kingdom is a highly urbanised country centered around multicultural London**
- **The United Kingdom has a low growth, rapidly aging population**
- **The structure of households is changing**

The United Kingdom is a highly urbanised country centered around multicultural London

- **Almost 90% of the population live in urban areas**
- **Over 30% of the population lives in Greater London and the South East**
- **The cities are more multicultural than the rest of the country**

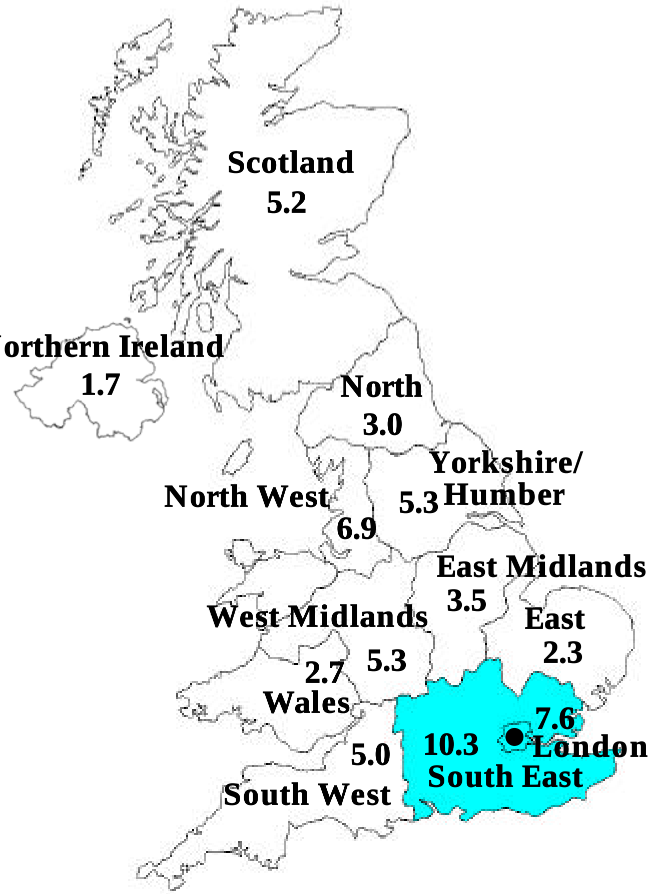
Almost 90% of the population live in urban areas



Source: FAO

Over 30% of the population lives in Greater London and the South East

REGIONAL POPULATIONS
(Millions, 1998)

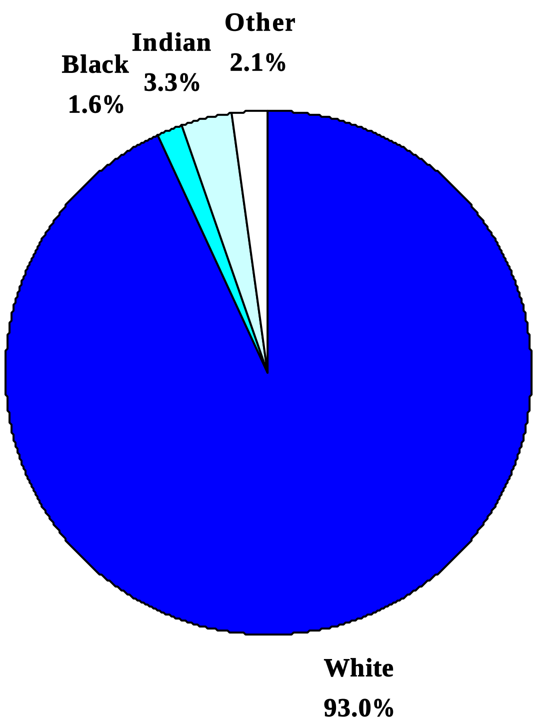


Source: UN

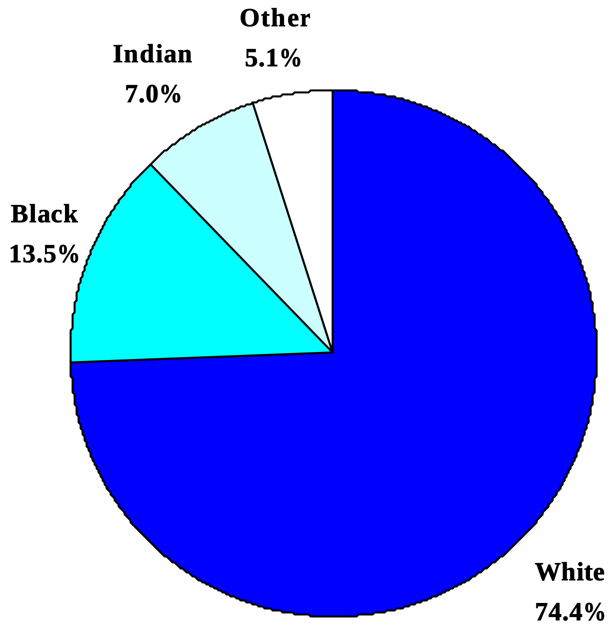
The cities are more multicultural than the rest of the country

ETHNIC GROUPS IN THE UK
(1998)

UNITED KINGDOM



INNER LONDON

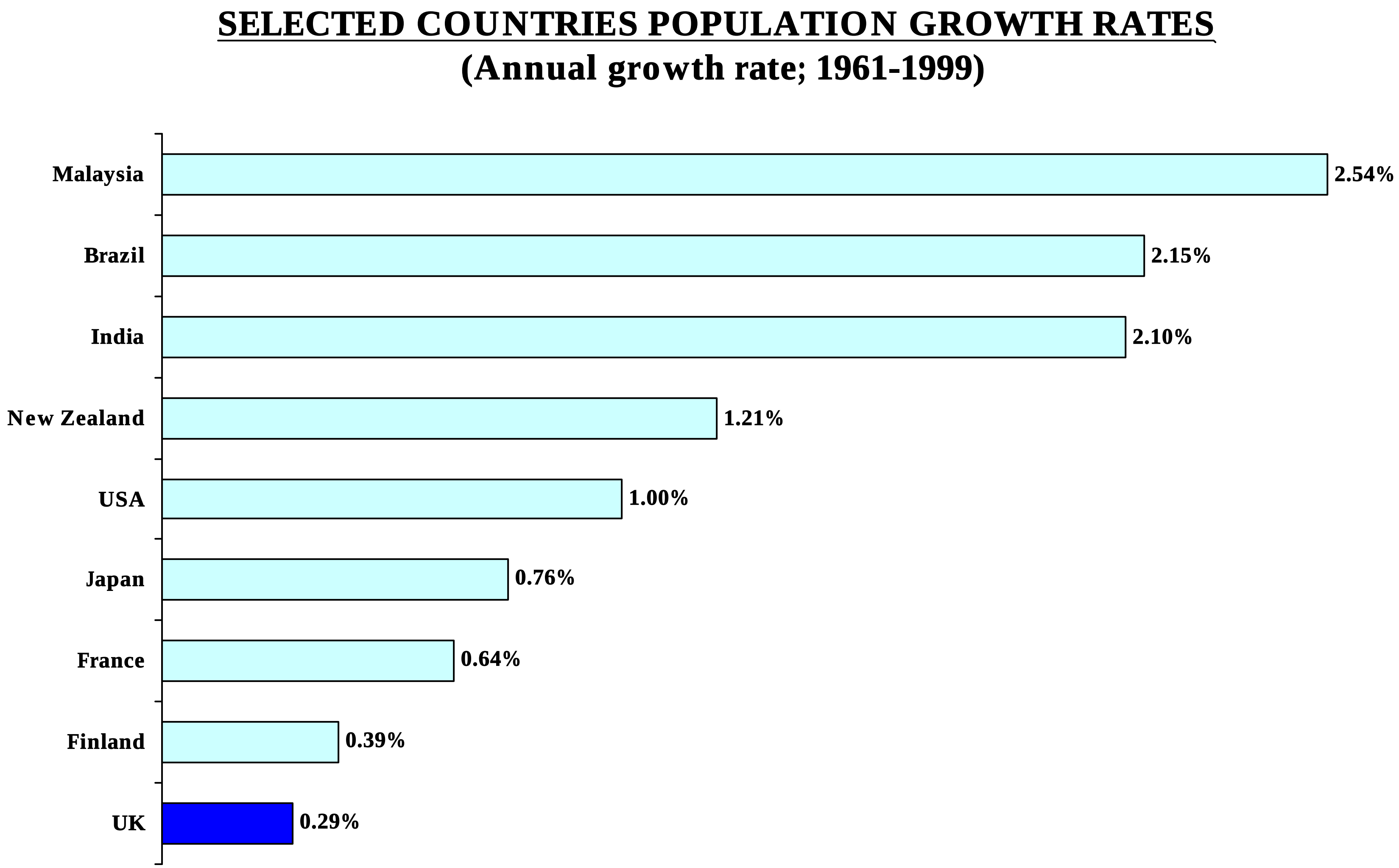


Source: UK Office of National Statistics (ONS)

The United Kingdom has a low growth, rapidly aging population

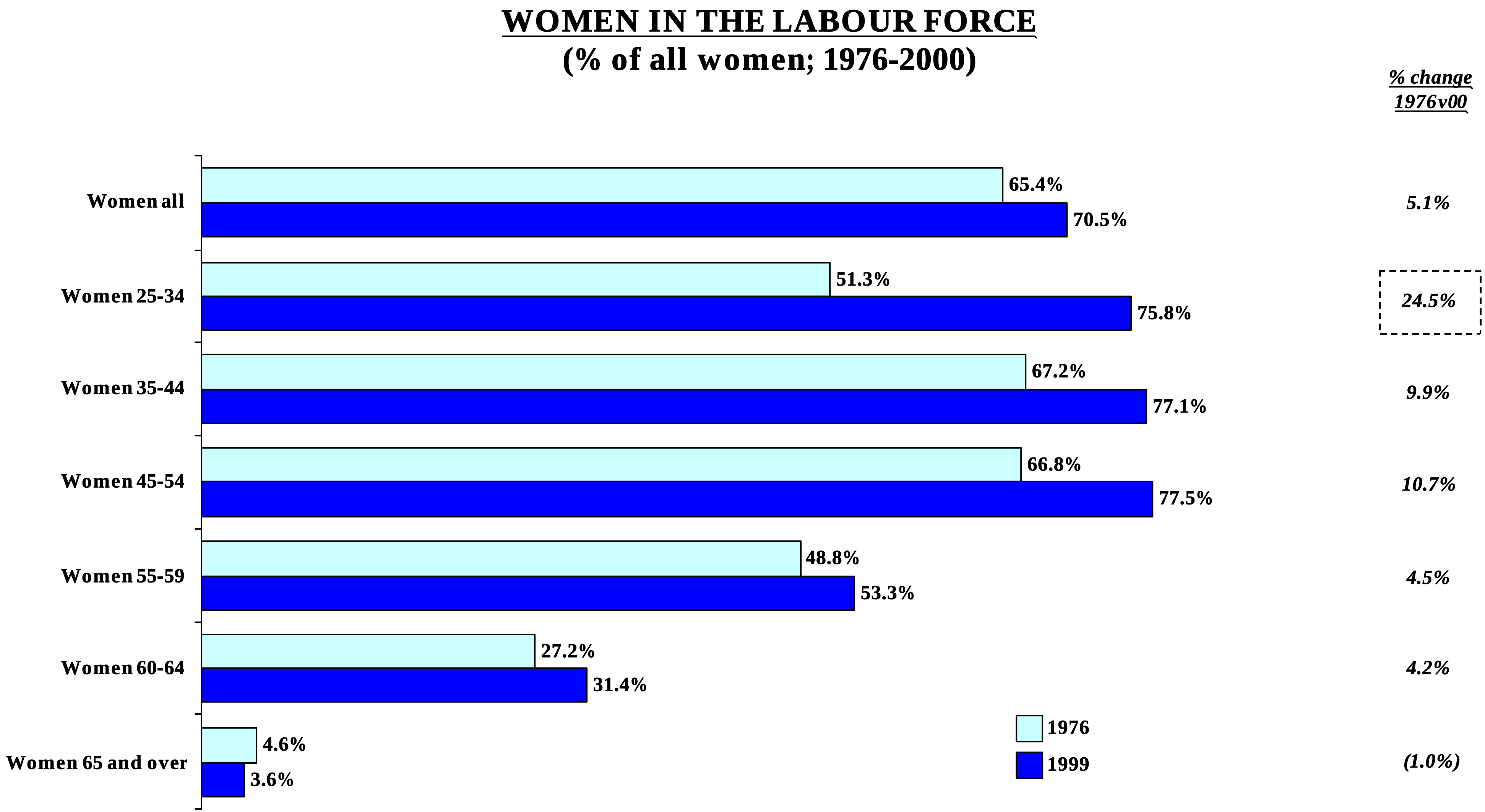
- **The UK has had very low population growth in the last 40 years**
- **Young women have dramatically increased their participation in the labour force... leading to women having fewer children at an older age**
- **Declining birth rates have led to a rapidly aging population, 15.7% of the population is over 65 years**

The UK has had very low population growth in the last 40 years



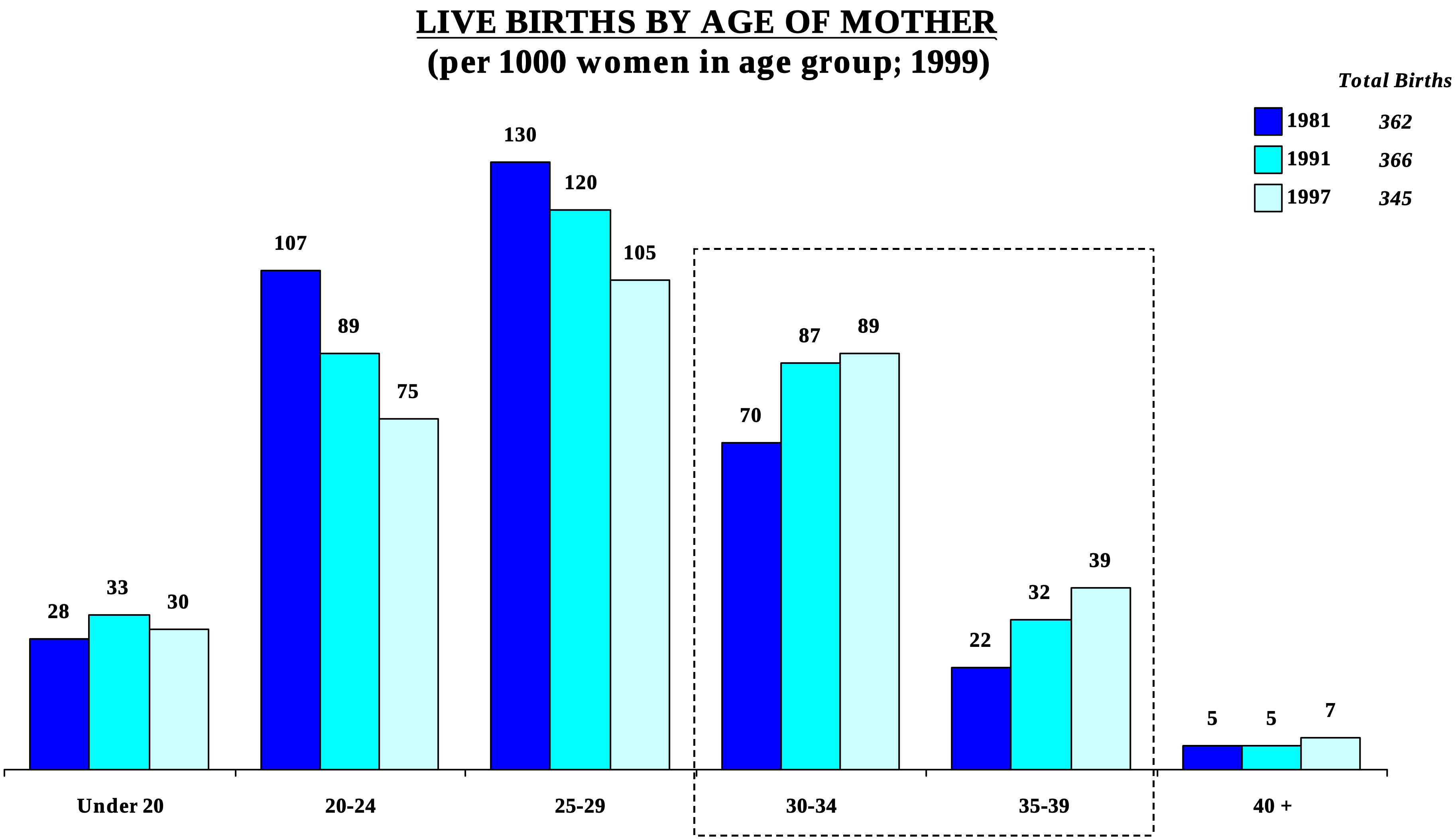
Source: FAO

Young women have dramatically increased their participation in the labour force...



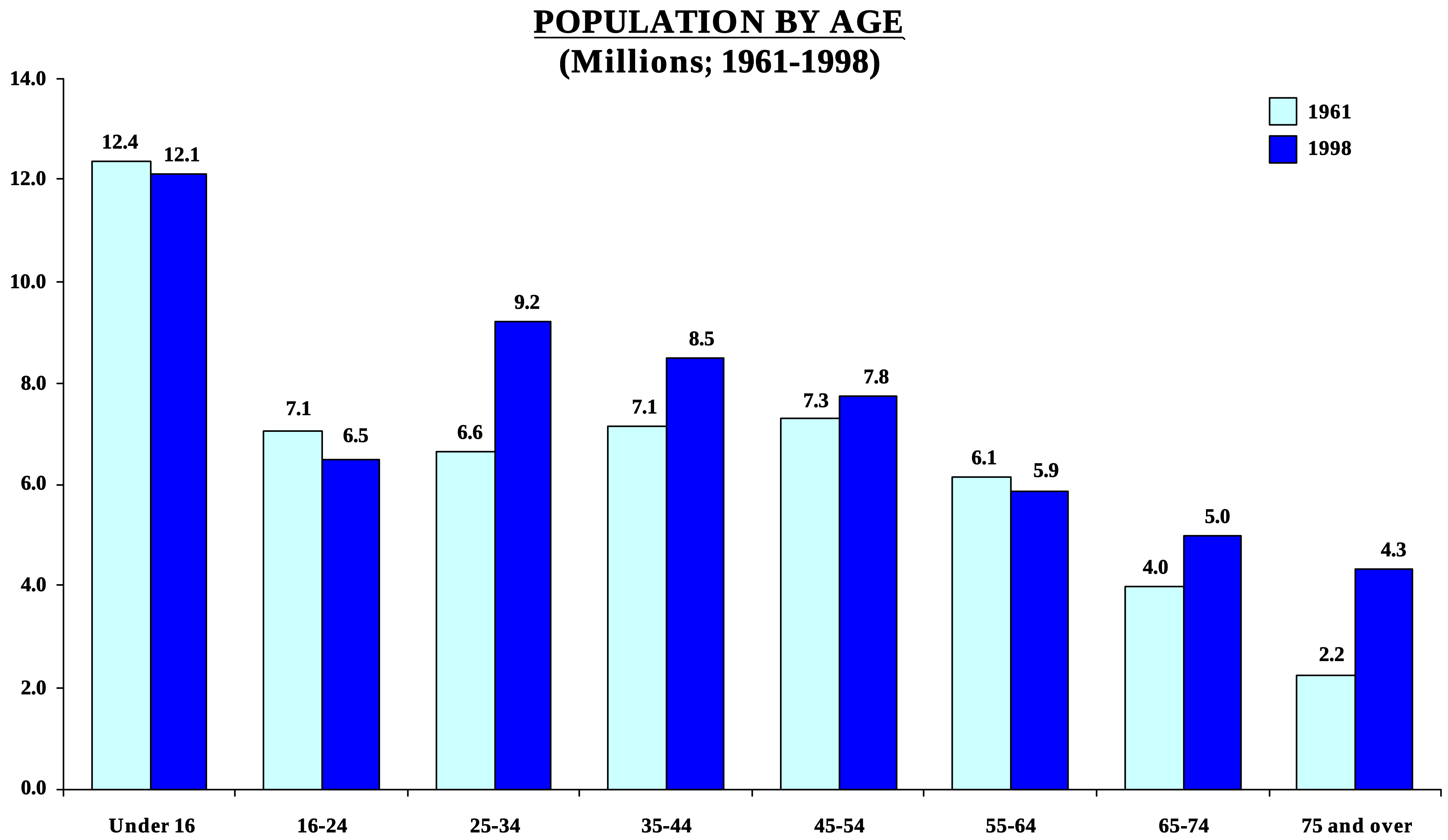
Source: ONS

...leading to women having fewer children at an older age



Source: ONS

Declining birth rates have led to a rapidly aging population, 15.7% of the population is over 65 years



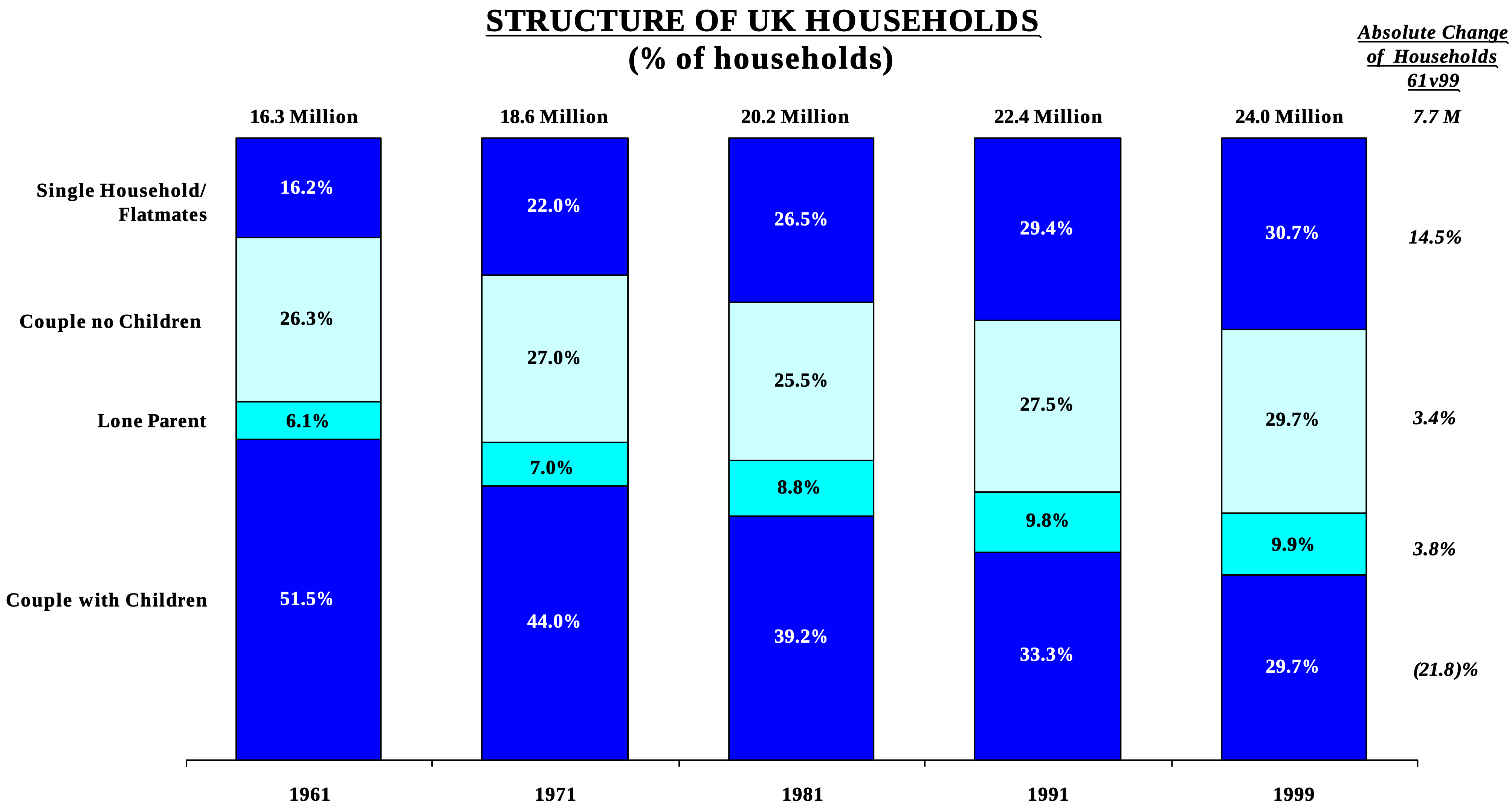
Source: ONS

The structure of households is changing

- **Nuclear families (couples with children) have fallen from 50% to less than 30%**

- **The size of the average household is falling**

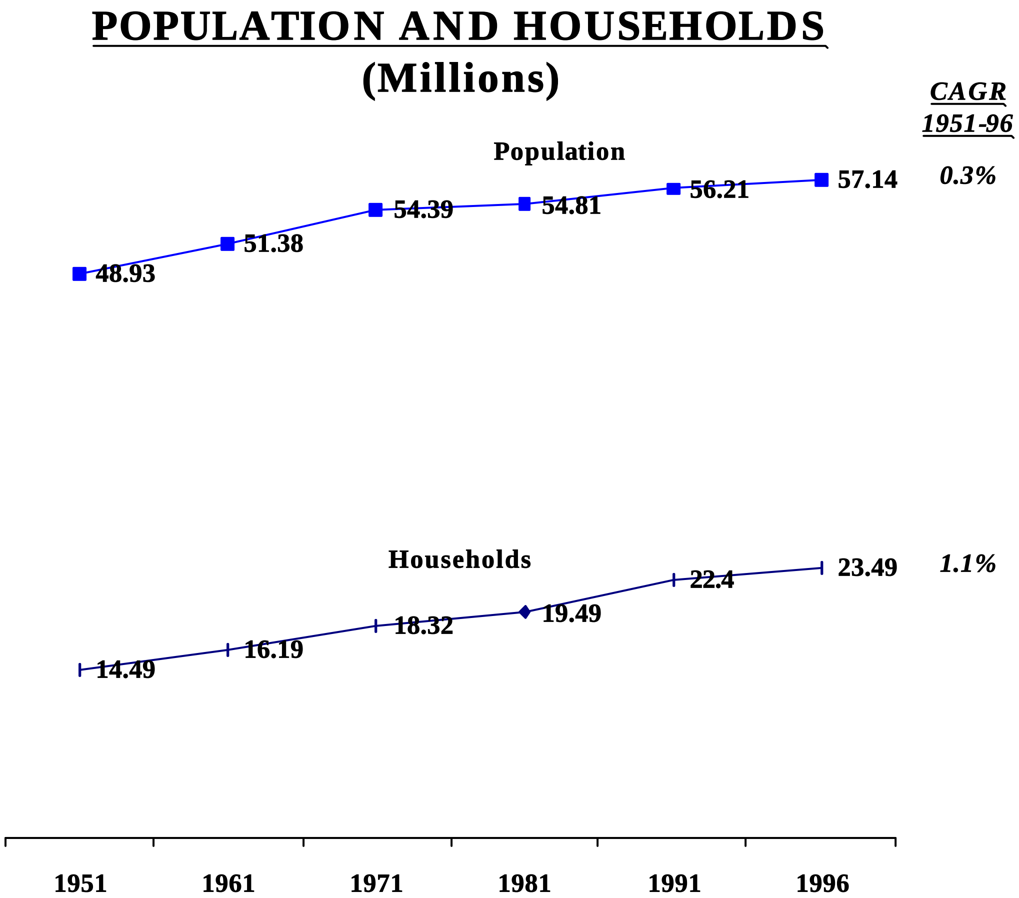
Nuclear families (couples with children) have fallen from 50% to less than 30%

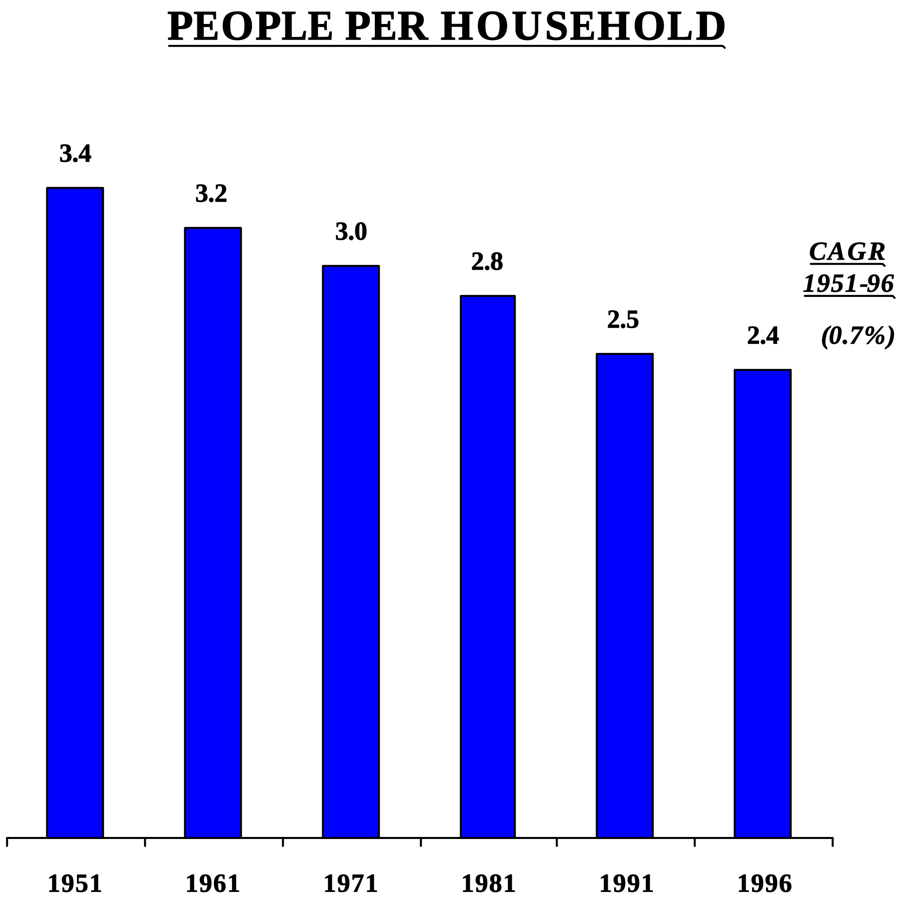


Source: ONS

The size of the average household is falling

POPULATION CHARACTERISTICS OVER TIME
(1951-1996)





Source: ONS

II. The UK is rapidly developing into a post-industrial economy

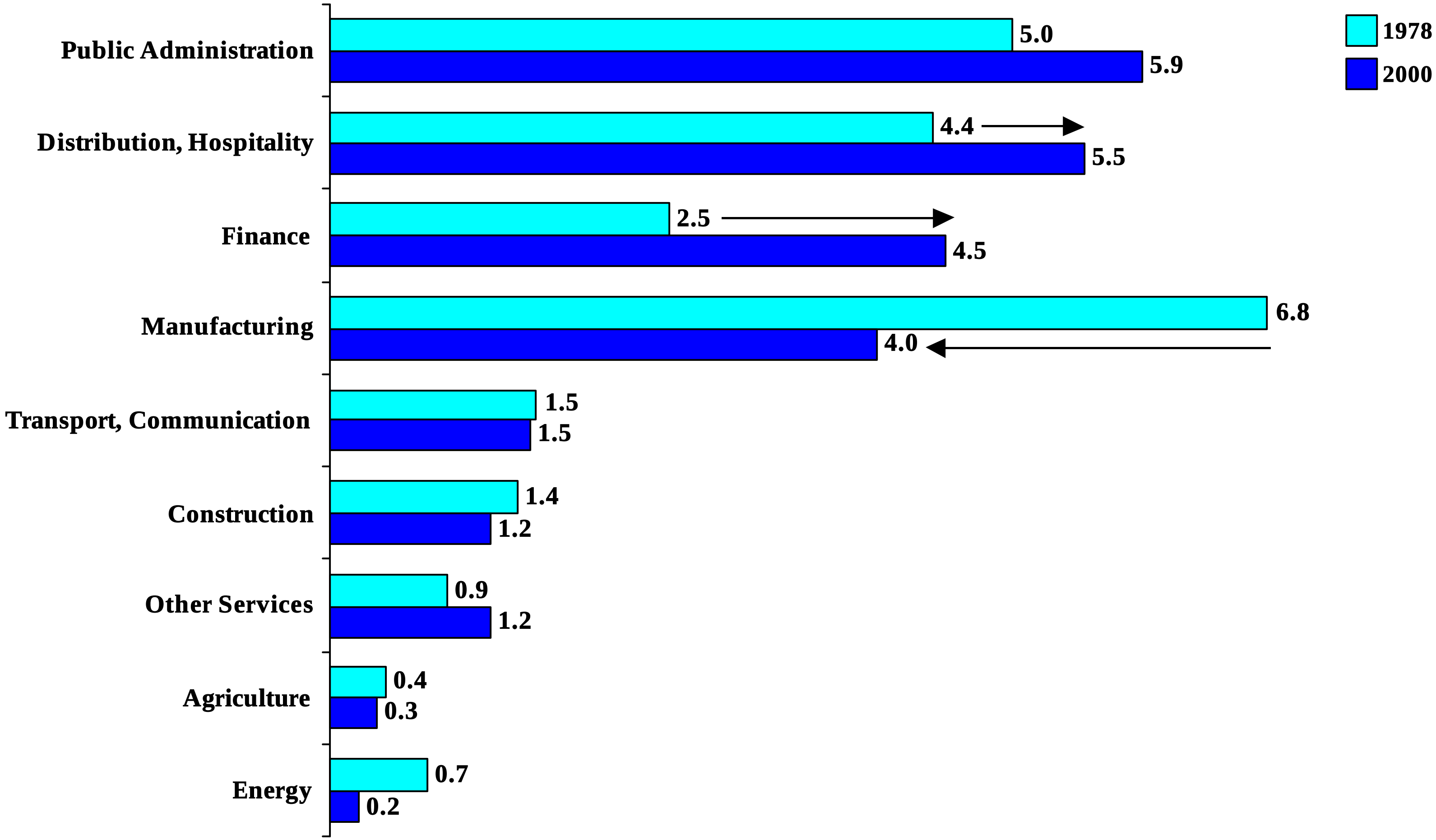
- **The economy is now based on services instead of manufacturing**
- **The UK has a healthy middle class**
- **However the class struggle remains**

The economy is now based on services instead of manufacturing

- **The UK has seen a decline in manufacturing employment and an increase in services**
- **Services now account for more than two thirds of GDP - manufacturing and agriculture is less than 20%**
- **Just under half of the population is employed or looking for work**

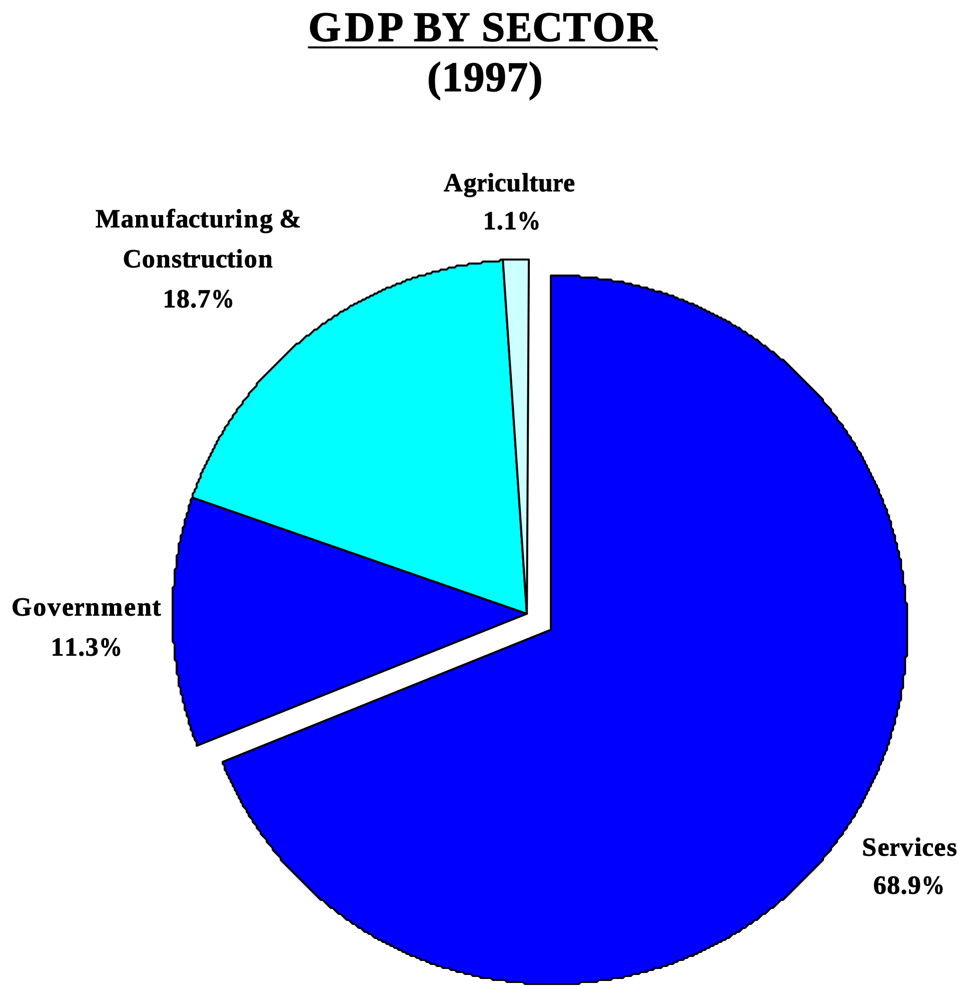
The UK has seen a decline in manufacturing employment and an increase in services

EMPLOYMENT BY INDUSTRY
(Millions; 1978 vs. 2000)



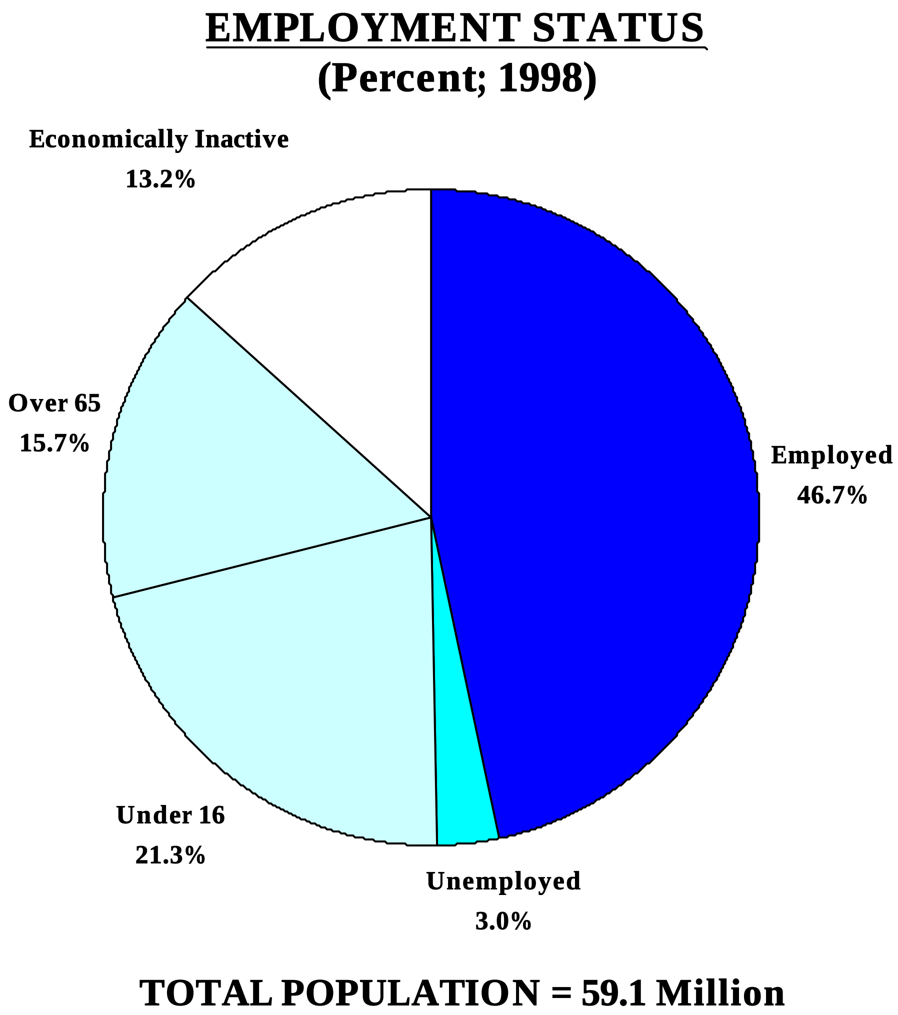
Source: ONS

Services now account for more than two thirds of GDP - manufacturing and agriculture is less than 20%



Source: CIA World Fact Book

Just under half of the population is employed or looking for work



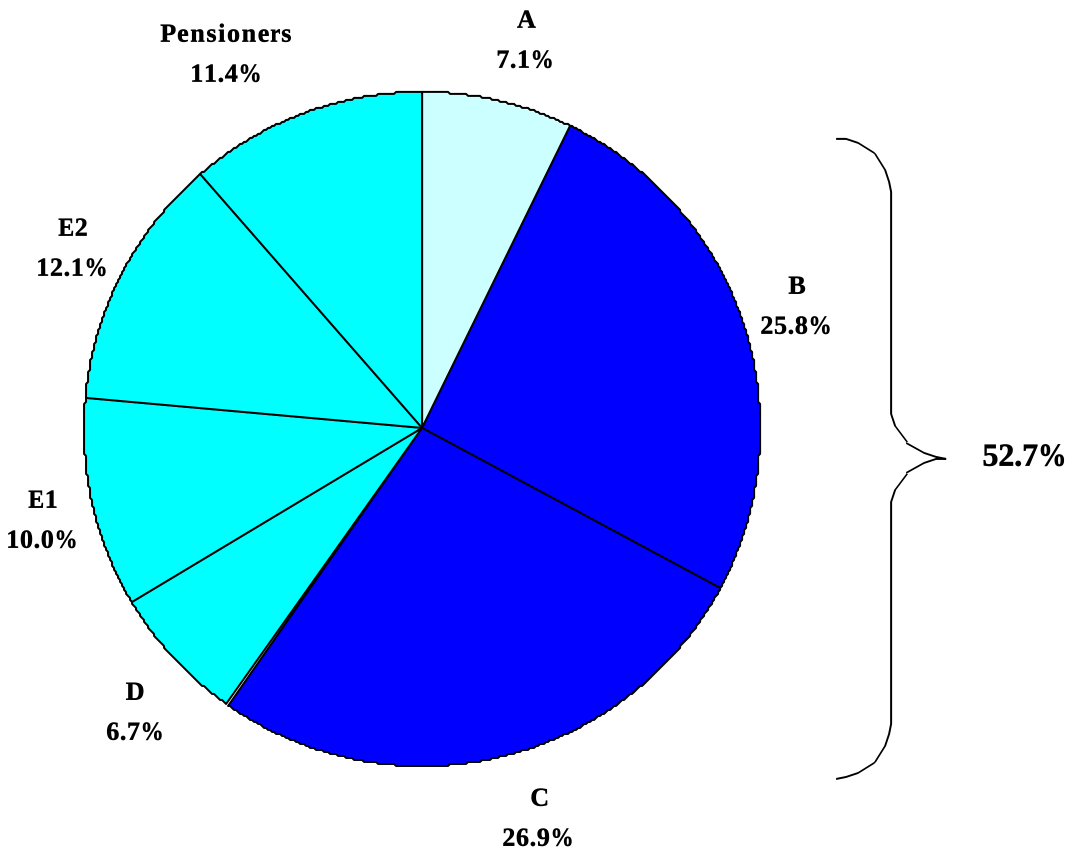
Source: ONS

The UK has a healthy middle class

- **Over 50% of households are defined as middle class**
- **Real incomes are rising**
- **Almost three quarters of households own their home**

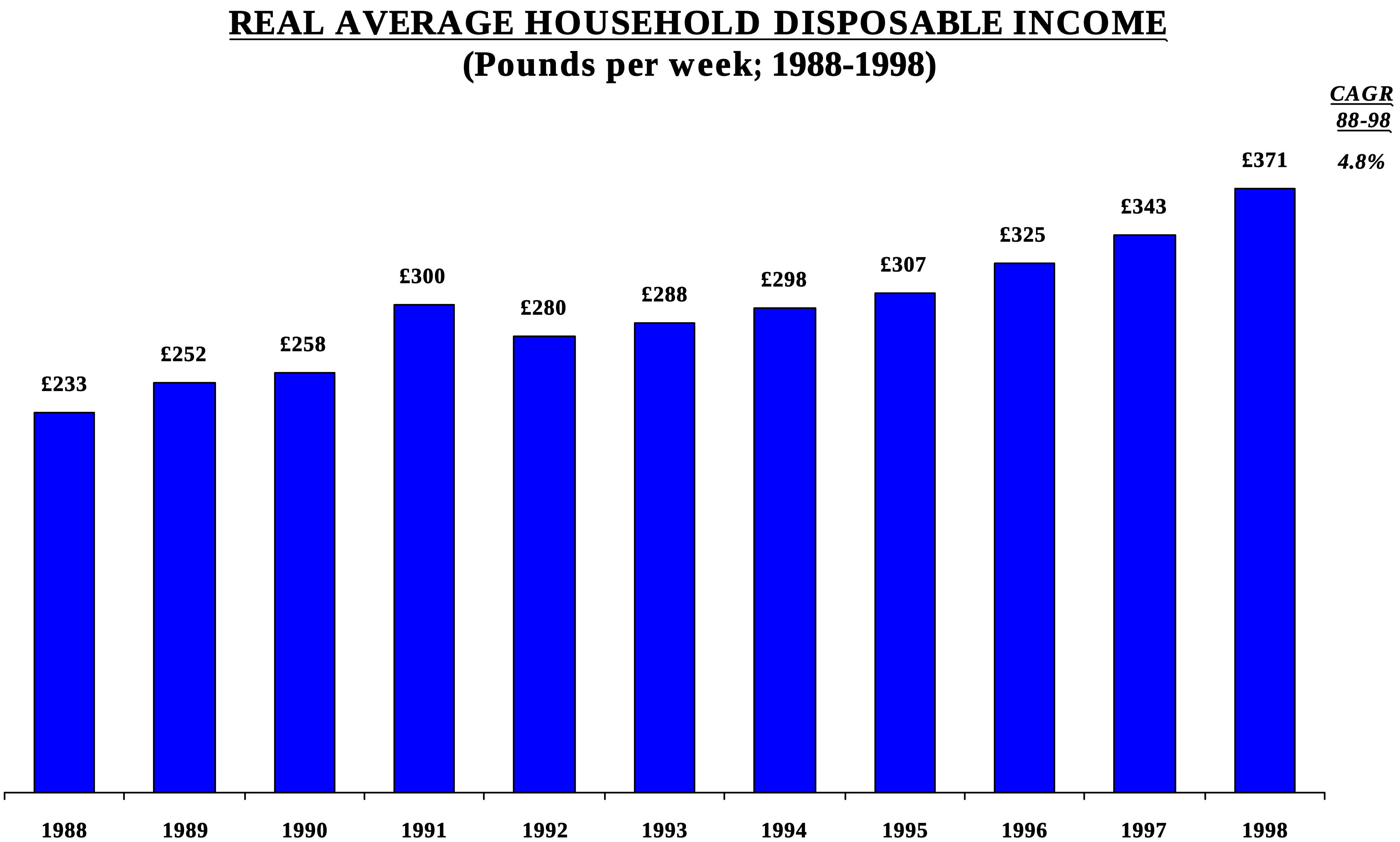
Over 50% of households are defined as middle class

HOUSEHOLDS BY SOCIAL CLASS[1]
(Households by income-defined social class; 1998)



1. Gross weekly income by head of household, one or more earners A= £640+, B= £640-£330, C= £330-£160, D= under £160; Households without an earner E1= £160+, E2= Under £160; Pensioners
Source: MAFF, National Food Survey

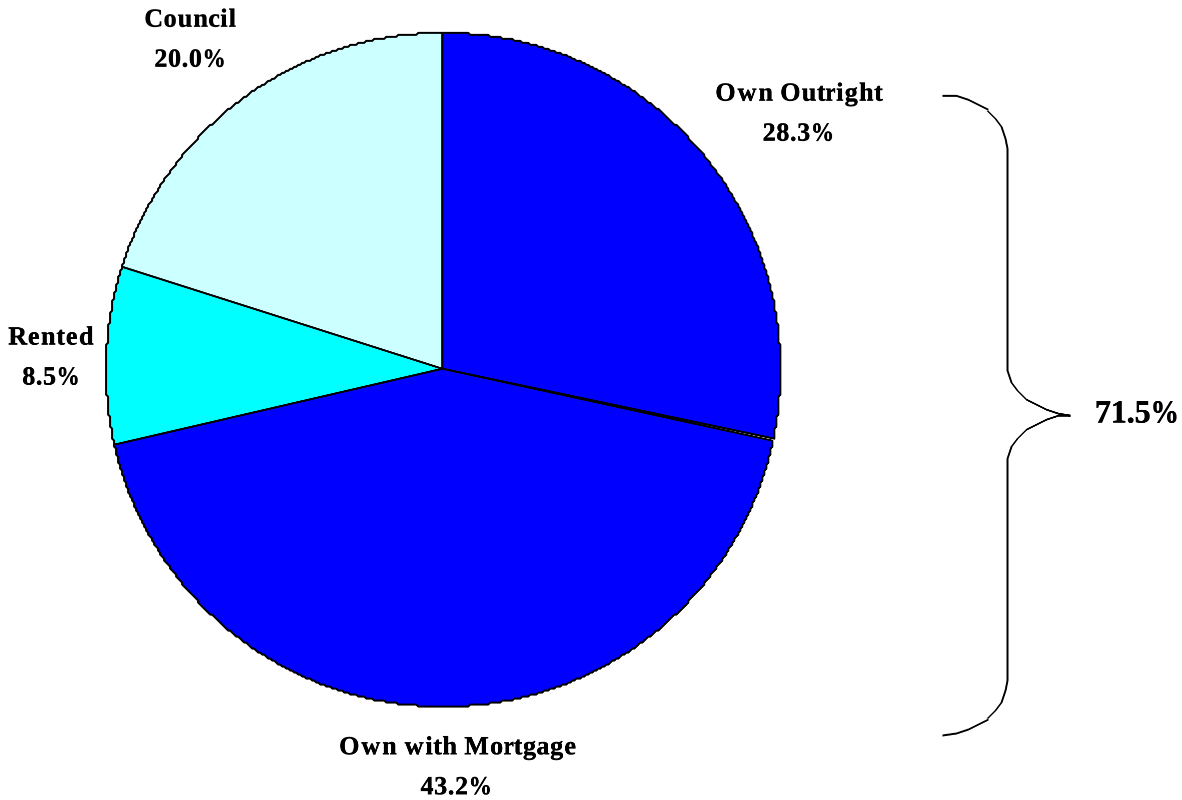
Real incomes are rising



Source: Family Expenditure Survey

Almost three quarters of households own their home

OWNERSHIP OF DWELLING
(Percent of households; 1998)



TOTAL HOUSEHOLDS = 24 Million

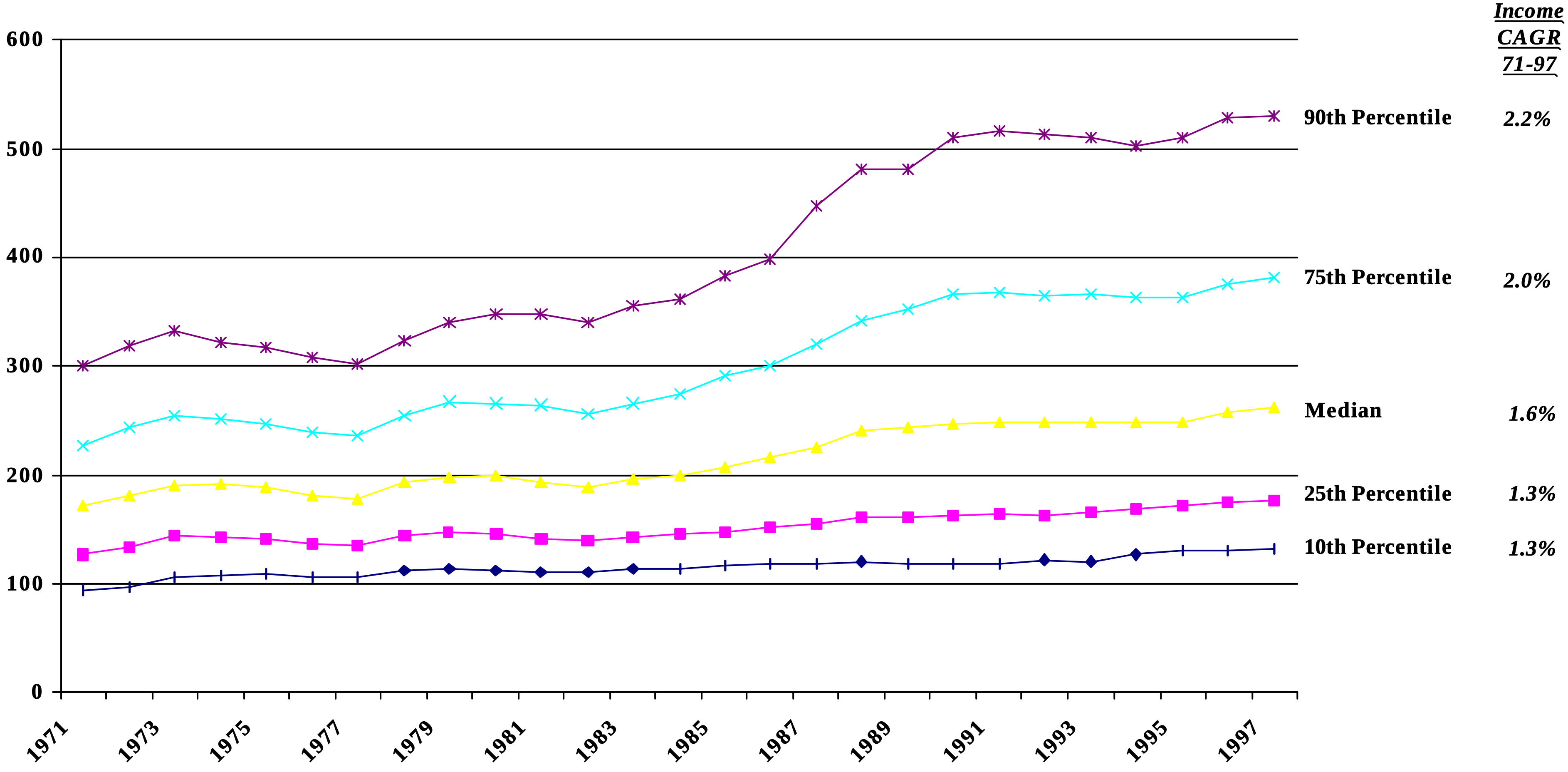
Source: ONS

However the class struggle remains

- **The rich are getting richer must faster than the poor are getting richer**
- **Regional differences remain; wealth and income is still concentrated around London and the south**

The rich are getting richer must faster than the poor are getting richer

DISTRIBUTION OF REAL HOUSEHOLD DISPOSABLE INCOME
(Pounds per week per capita; 1971-1997)

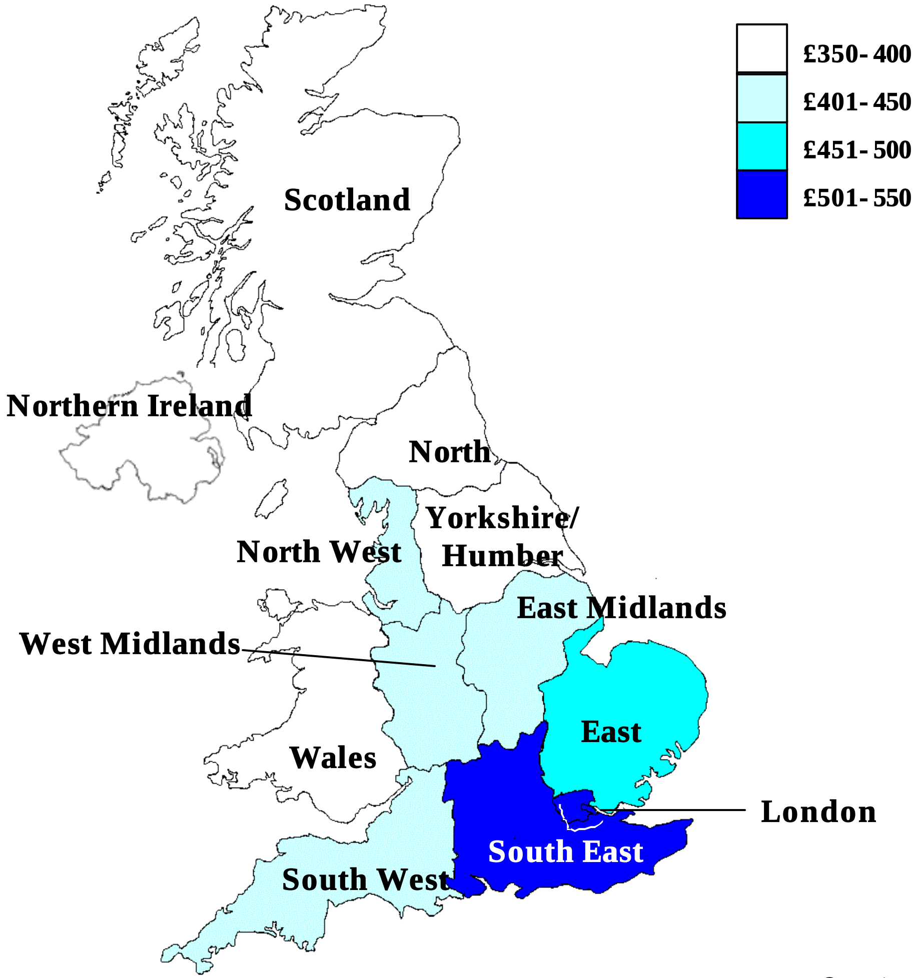


Source: Institute for Fiscal Studies, 1999

Regional differences remain; wealth and income is still concentrated around London and the south

UK INCOME DISTRIBUTION BY REGION

(Household gross income; Pounds per week per capita; 1998)



Source: ONS, Coriolis Analysis

III. Meat and three vege are being replaced with Tandori chicken and mangoes

- **The United Kingdom is seeing a significant change towards more healthy eating habits**
- **Consumer spending on food, while influenced by demographic factors, is flat**

The United Kingdom is seeing a significant change towards more healthy eating habits

- **Unlike in most other countries, daily caloric intake is declining**
- **Consumers are trading away from high fat foods**
  - **Total dairy consumption is down, while low fat milk is increasing at the expense of wholemilk**
  - **Total spread consumption is decreasing, while low fat spreads are increasing at the expense of butter and margarine**
  - **Total meat consumption is down, while poultry is increasing at the expense of red meat**
- **Consumers are embracing healthier foods and lifestyles**
  - **Changes in eating habits reflect a healthier diet**
  - **People are spending more on fruits, vegetables and cereals**
  - **Ethnic food, produce and carbohydrates have grown at the expense of more traditional English fares**
  - **Vegetarianism is on the rise, especially among women, 6.7% of whom are vegetarians**

Unlike in most other countries, daily caloric intake is declining

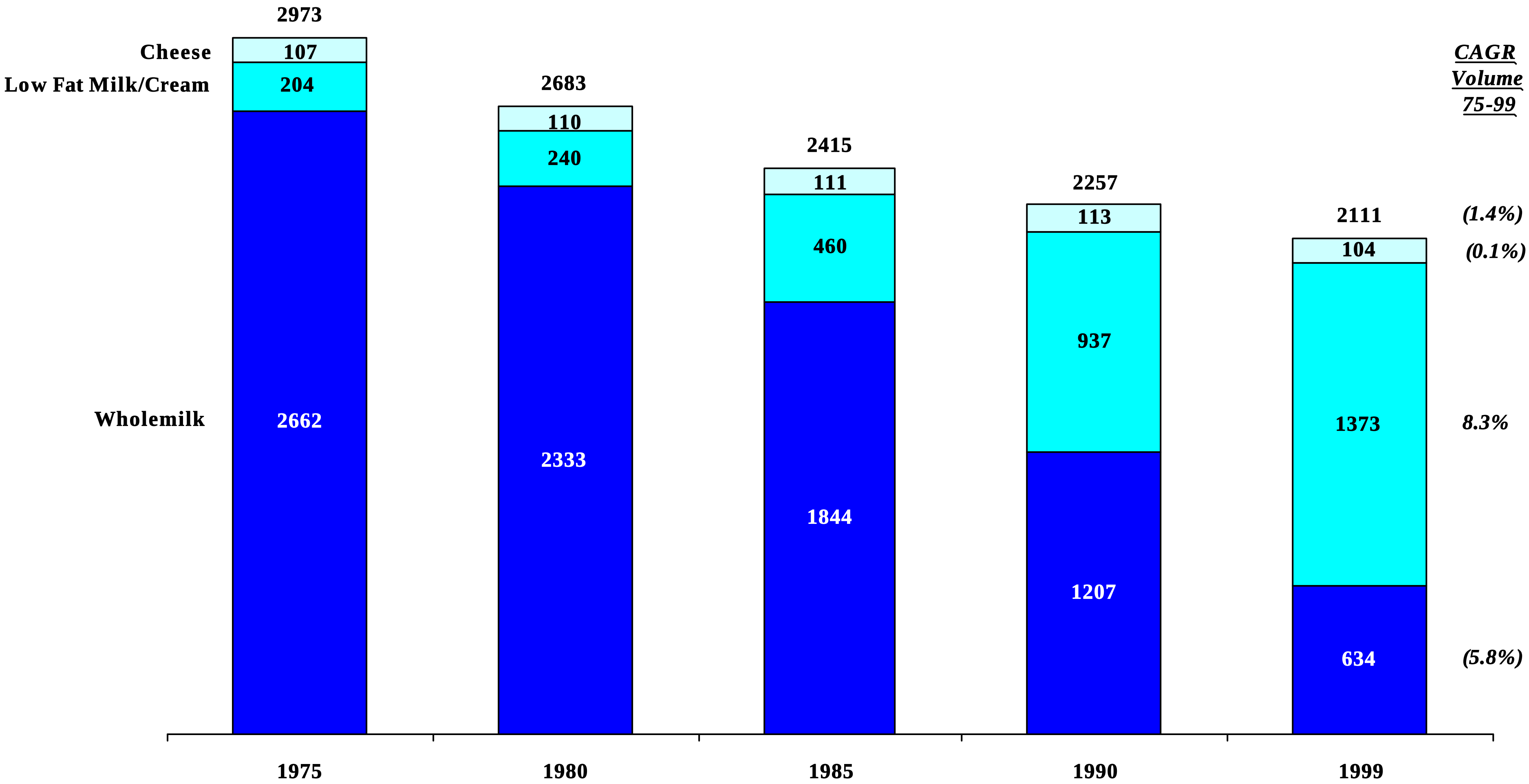
FOOD NUTRITION

	Calories (Daily grams per capita)			Fat (Daily grams per capita)			Protein (Daily grams per capita)		
Country	**1970**	**1997**	**%D**	**1970**	**1997**	**%D**	**1970**	**1997**	**%D**
United States	2,965	3,699	25%	116	143	23%	95	112	18%
NZ	2,941	3,395	15%	117	137	17%	96	108	12%
UK	3,282	3,276	-0.2%	83.4	83	-0.5%	93	95	2%
Japan	2,704	2,932	8%	55	83	52%	81	96	18%
China	2,018	2,897	44%	23	71	214%	48	78	62%

Source: UN Human Development Indicators; Coriolis Analysis

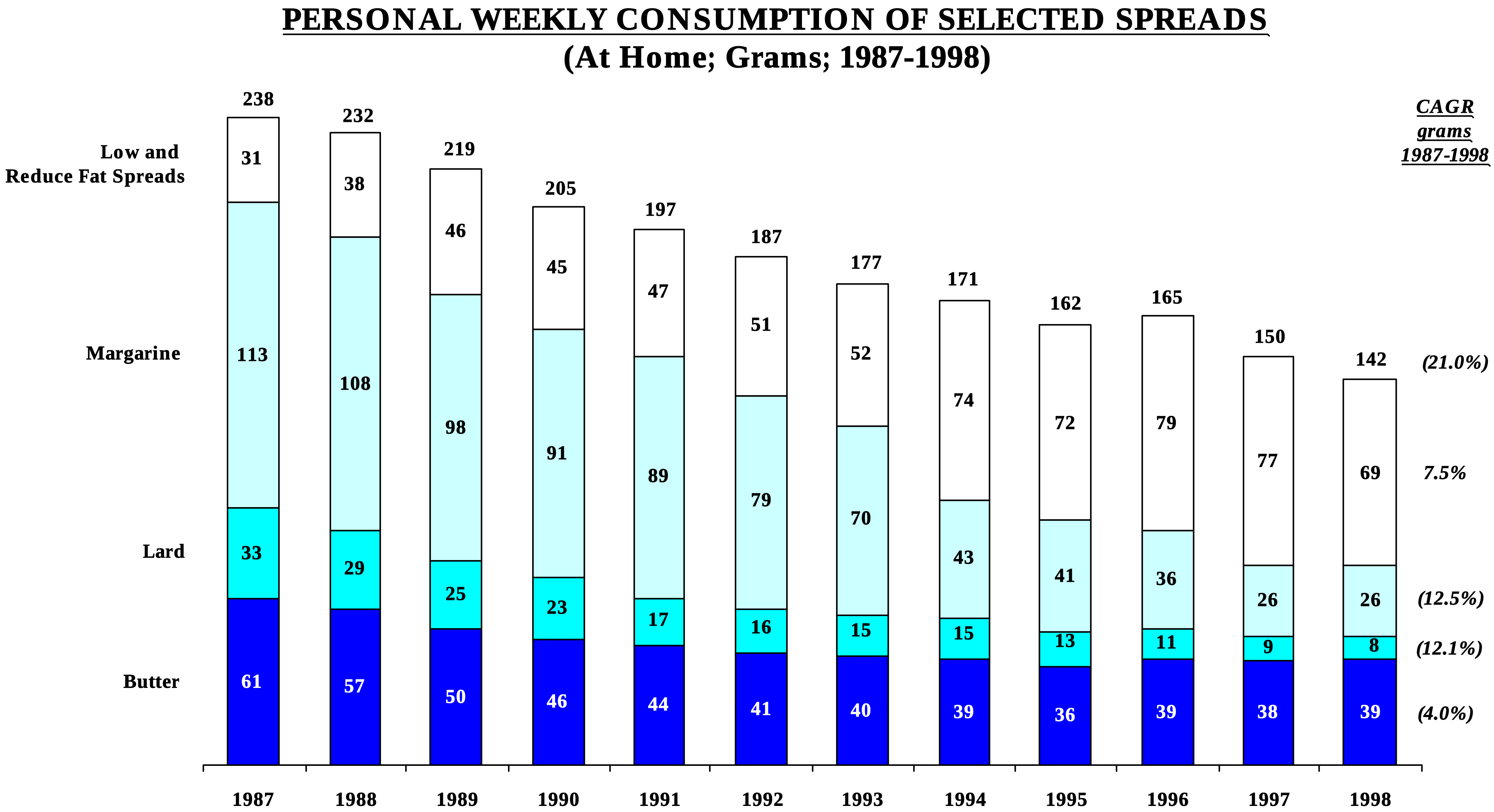
Total dairy consumption is down, while low fat milk is increasing at the expense of wholemilk

PERSONAL WEEKLY CONSUMPTION OF DAIRY PRODUCTS
(At Home; Milliliters/Grams; 1975-1999)



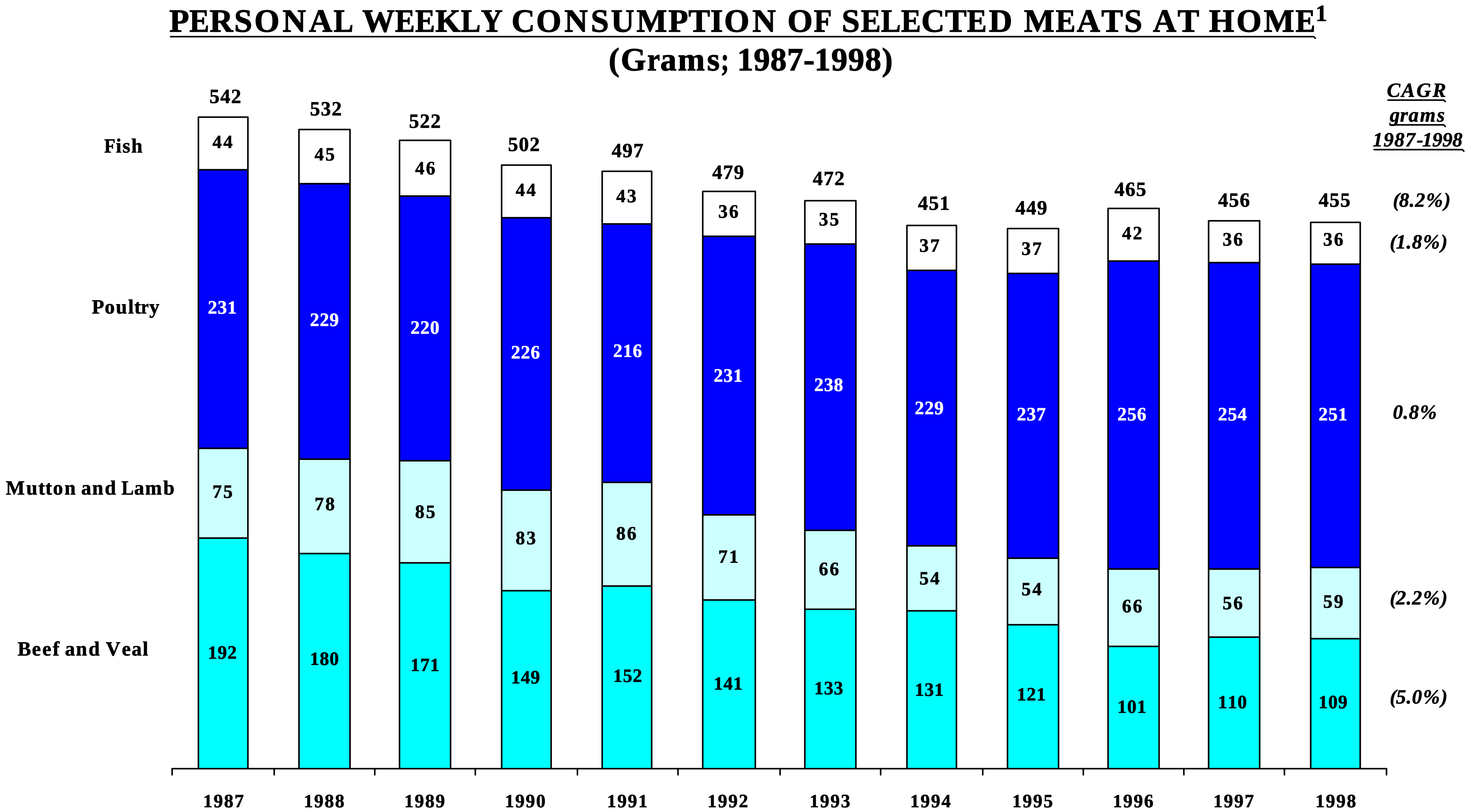
Source: MAFF, National Food Survey

Total spread consumption is decreasing, while low fat spreads are increasing at the expense of butter and margarine



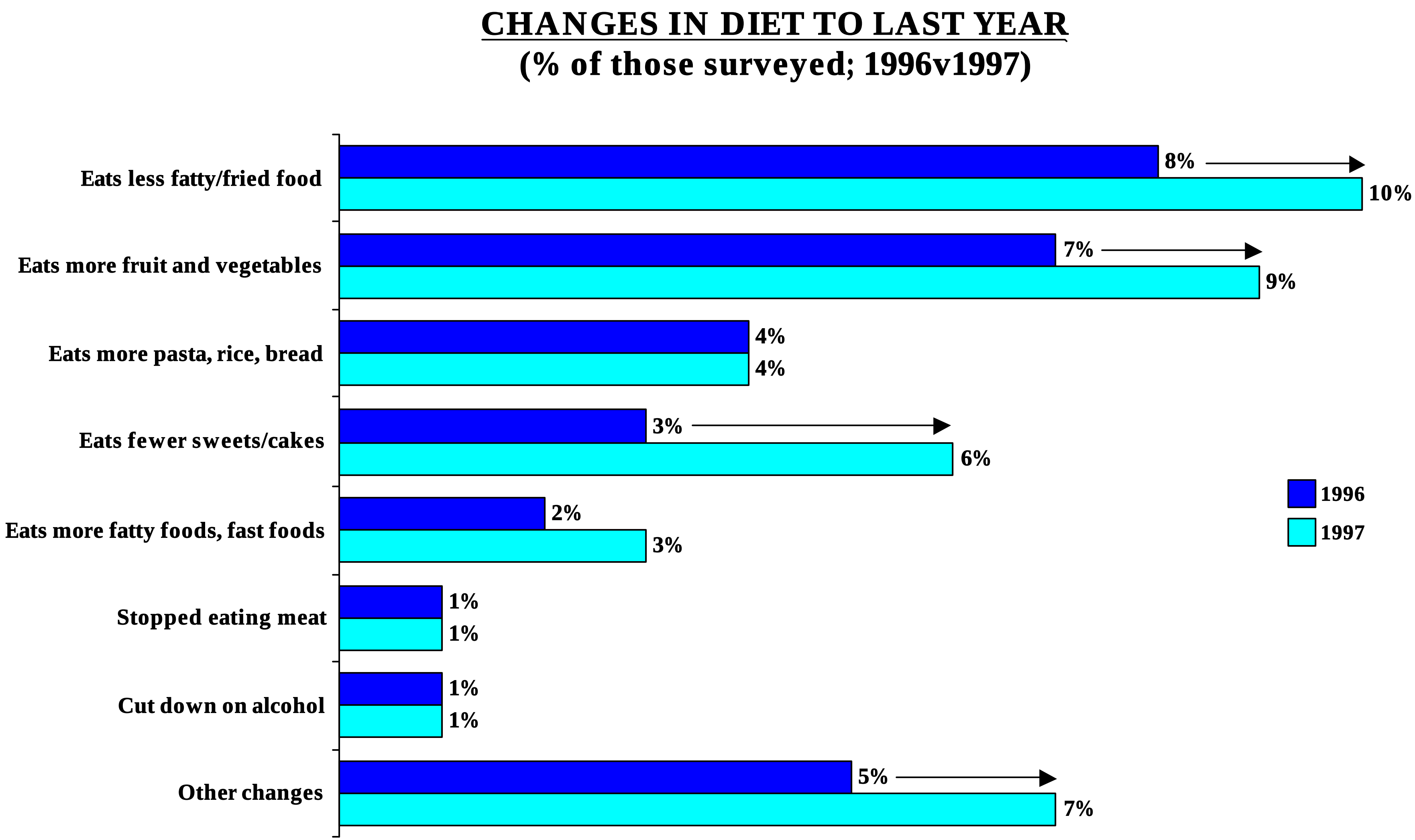
Source: ONS

Total meat consumption is down, while poultry is increasing at the expense of red meat



1. Does not include pork and other meats
Source: ONS

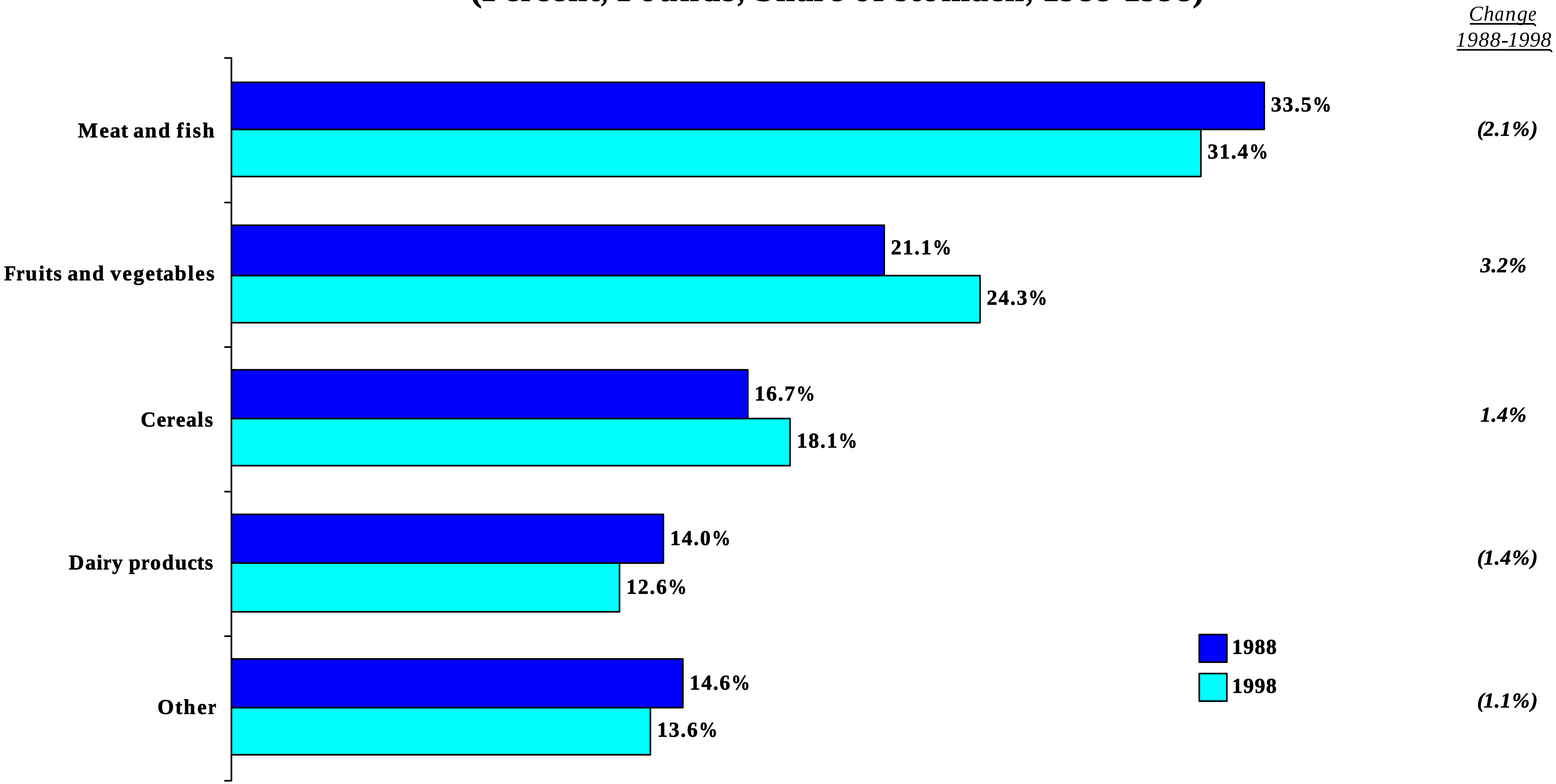
Changes in eating habits reflect a healthier diet



Source: ONS, Health Education Monitoring Survey

People are spending more on fruits, vegetables and cereals

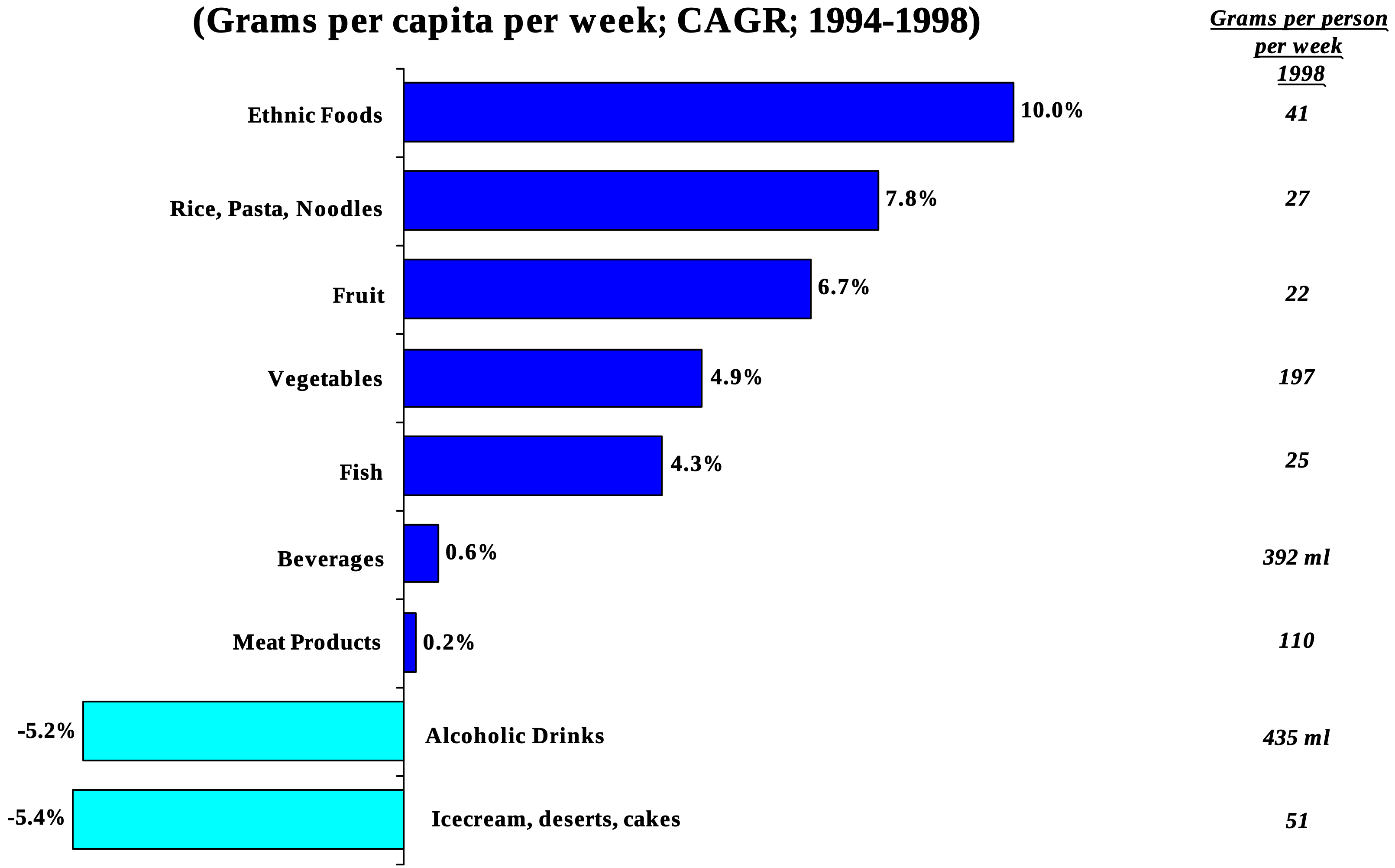
EXPENDITURE ON FOOD AT HOME BY MAIN FOOD GROUPS
(Percent; Pounds; Share of stomach; 1988-1998)



Source: MAFF, National Food Survey

Ethnic food, produce and carbohydrates have grown at the expense of more traditional English fares

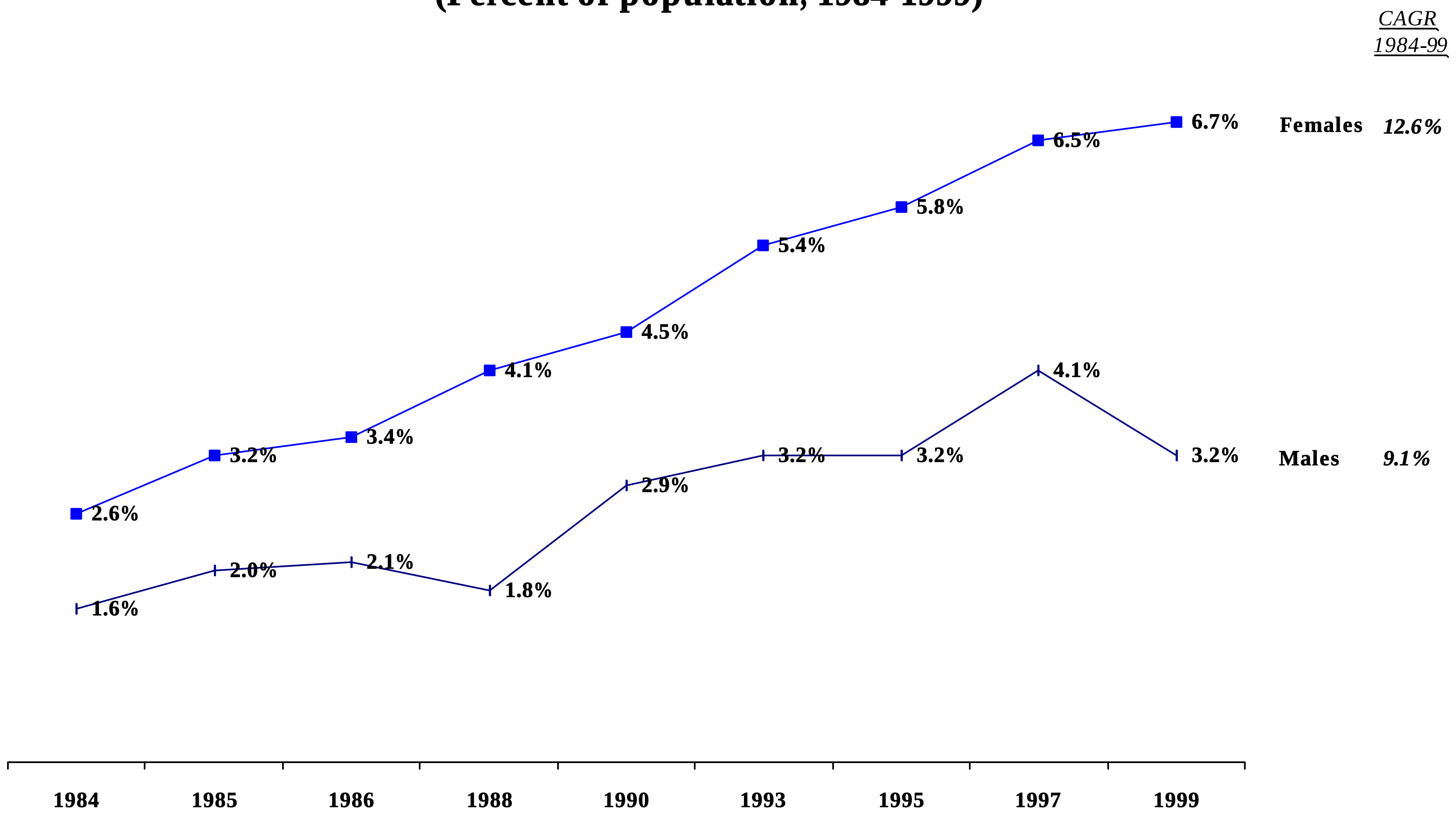
GROWTH RATES OF SELECTED FOODS EATEN OUT
(Grams per capita per week; CAGR; 1994-1998)



Source: MAFF, National Food Survey

Vegetarianism is on the rise, especially among women, 6.7% of whom are vegetarians

MALE AND FEMALE VEGETARIANS
(Percent of population; 1984-1999)



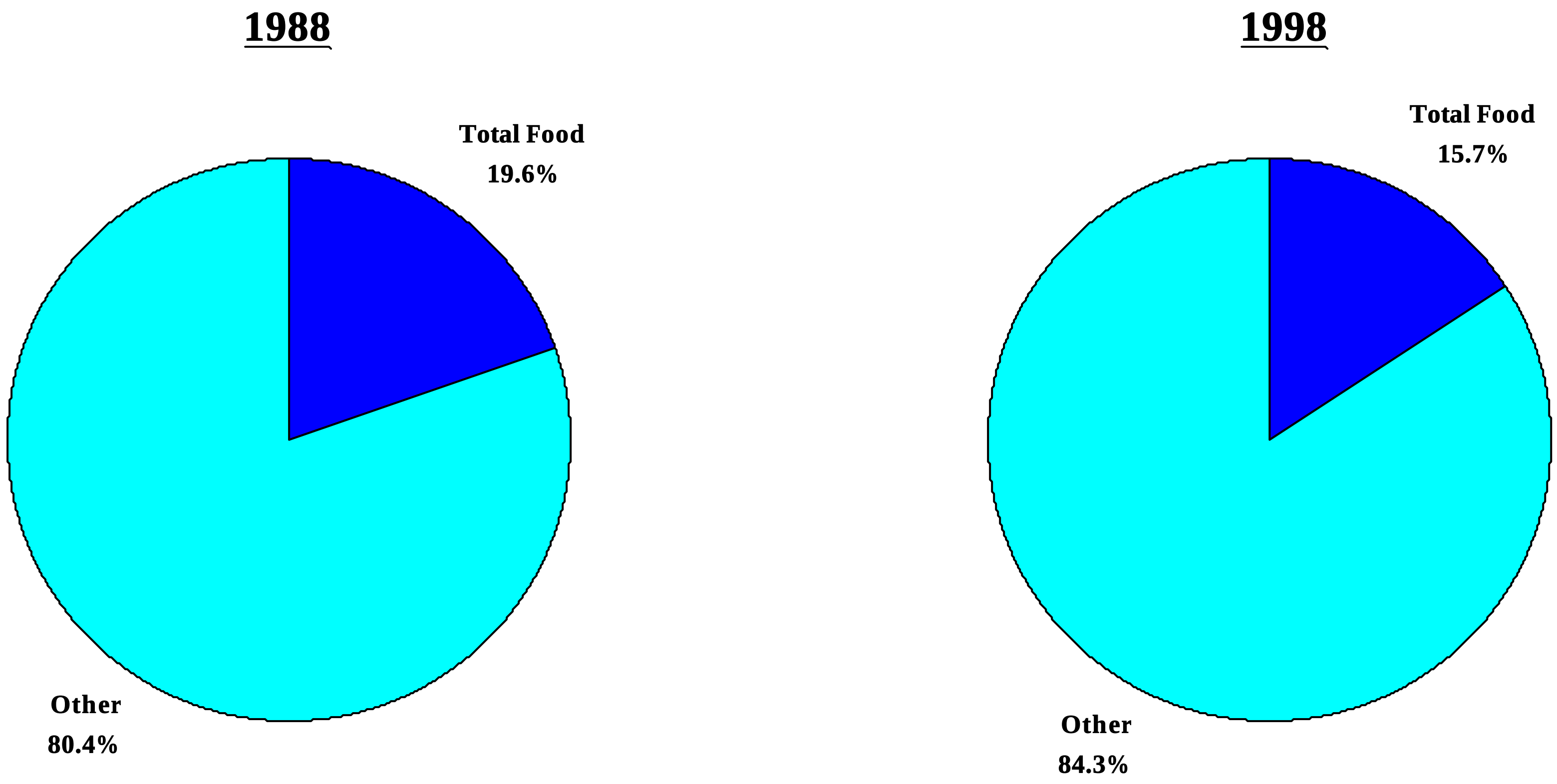
Source: Vegetarian Society Website

Consumer spending on food, while influenced by demographic factors, is flat

- **Actual consumer spending on food is not showing significant growth**
  - **Food as a percent of total household spending is decreasing**
  - **The average person spends £23.67 per week on food**
  - **Food away from home is growing faster than food at home**
- **Demographic factors impact on food expenditure**
  - **Middle aged consumers spend the most on food, however younger consumers spend more on eating out**
  - **The higher the income the more spent on food**
  - **The richest 7% of UK households account for 25% of food spending**
  - **People in the South of England spend the most on food**

Food as a percent of total household spending is decreasing

FOOD AS A PERCENT OF TOTAL HOUSEHOLD EXPENDITURE[1]
(Percent; 1988-1998)



1: Constant prices; includes Food at Home and Food Away from Home
Source: ONS

The average person spends £23.67 per week on food

AVERAGE PERSONAL WEEKLY UK FOOD EXPENDITURE
(Pounds; 1998)

Total Spending on Food
£23.67
100%

Food Away From Home
£6.73
28%

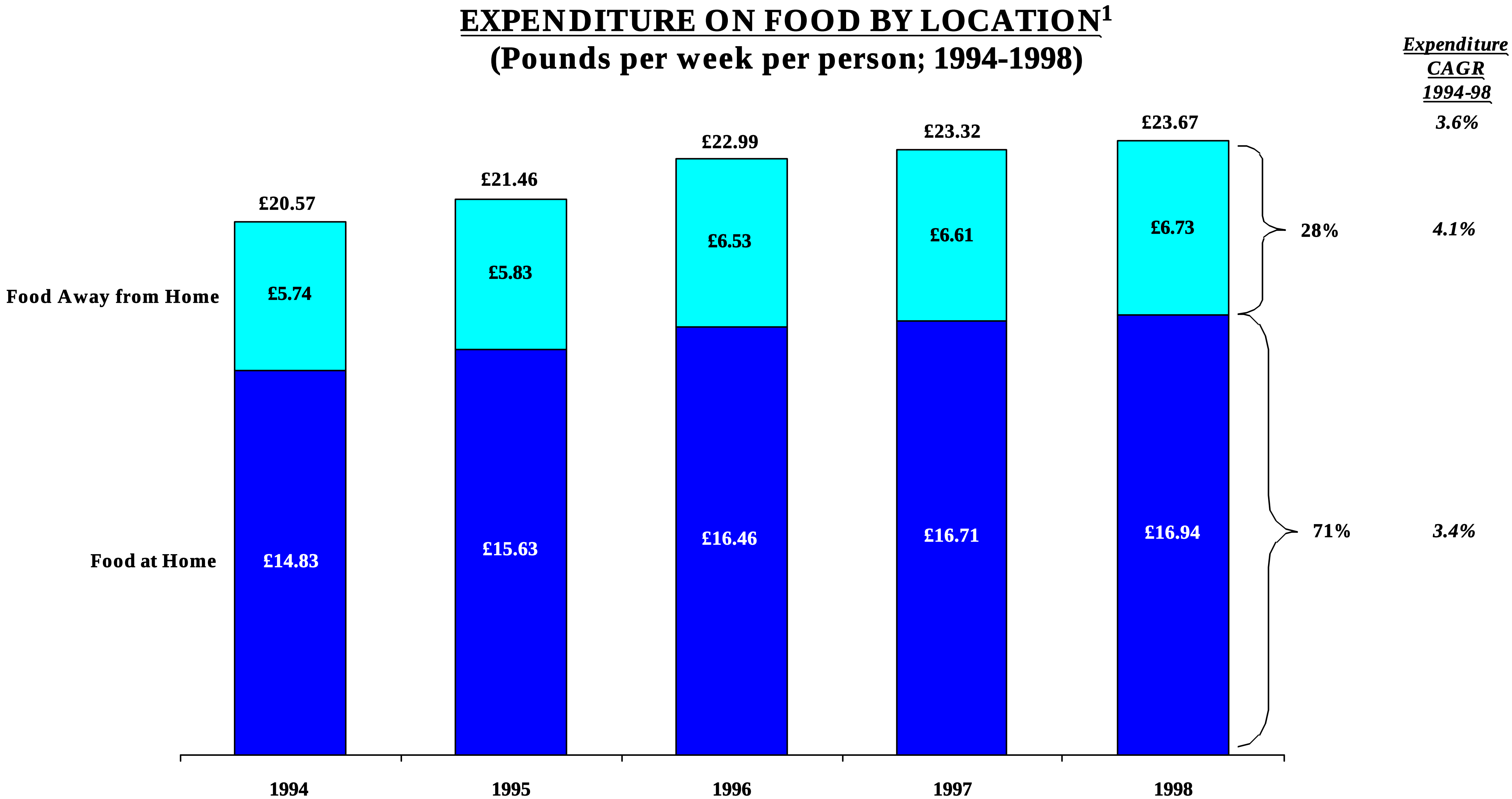
£5.21 "Food"
£1.52 Alcoholic drinks

Food at Home[1]
£16.94
72%

£14.79 "Food"
£1.33 Alcoholic drinks
£0.52 Softdrinks
£0.30 Confectionery

1: Includes alcohol, does not include non-foods, HBC, pet food, petrol etc
Source: ONS; MAFF, National Food Survey; FAS; Other; Coriolis Analysis

Food away from home is growing faster than food at home

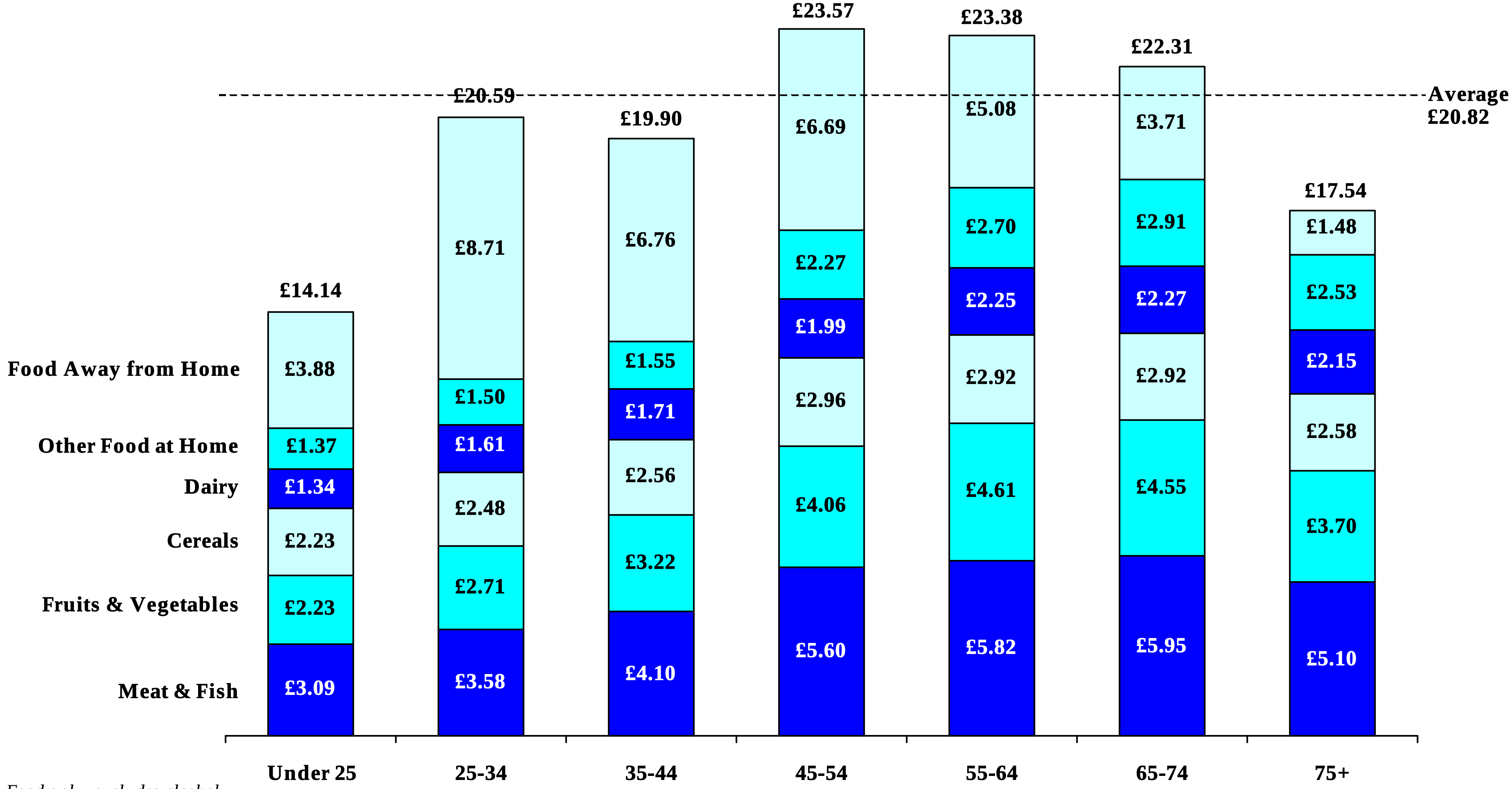


1. Not adjusted for inflation (2.7% in 1998)
Source: MAFF, National Food Survey

Middle aged consumers spend the most on food, however younger consumers spend more on eating out

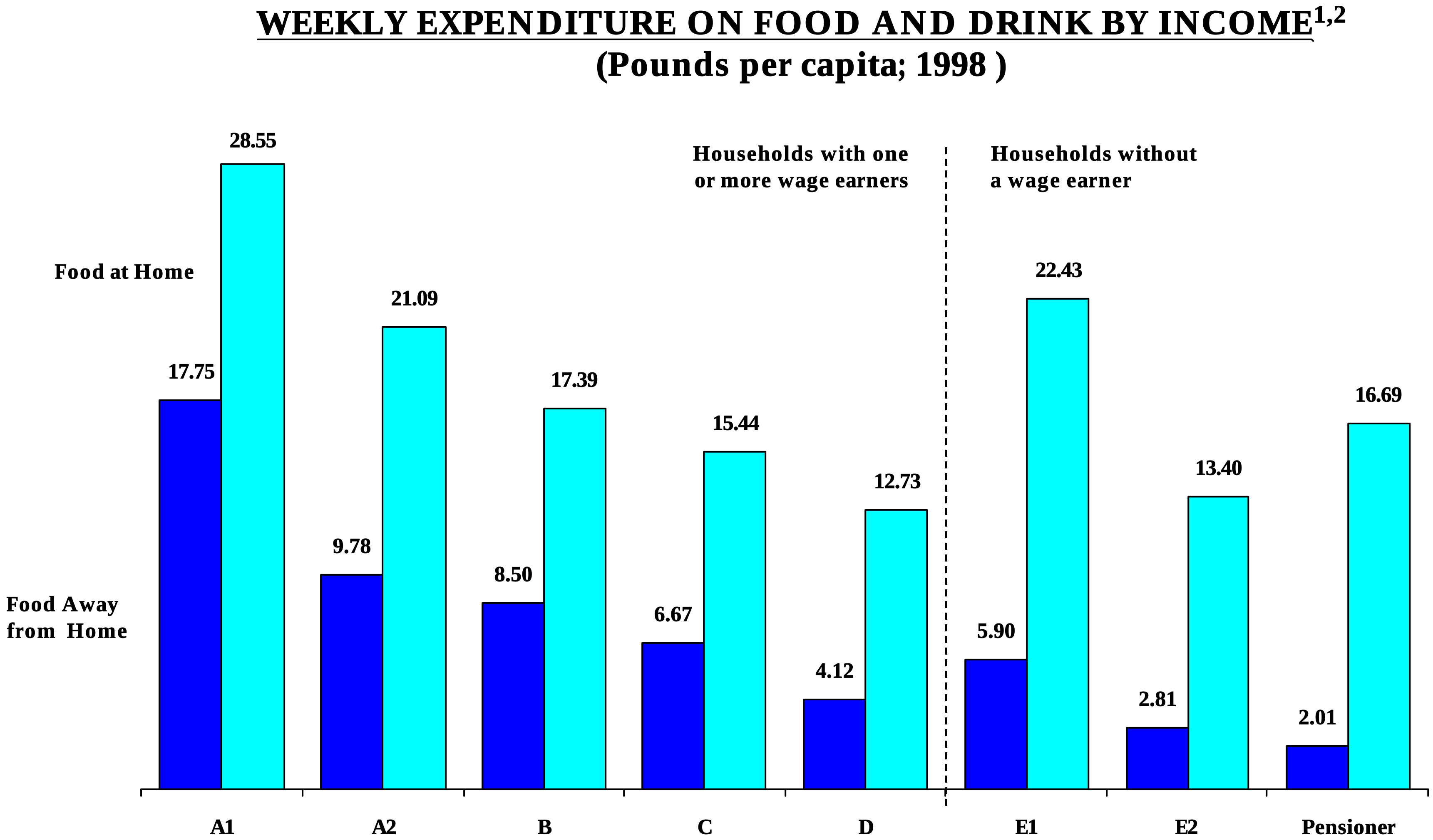
PERSONAL EXPENDITURE ON FOOD BY AGE BY MAIN FOOD GROUPS[1]

(Pounds; Share of stomach; 1998)



1: Food only, excludes alcohol
Source: MAFF, National Food Survey

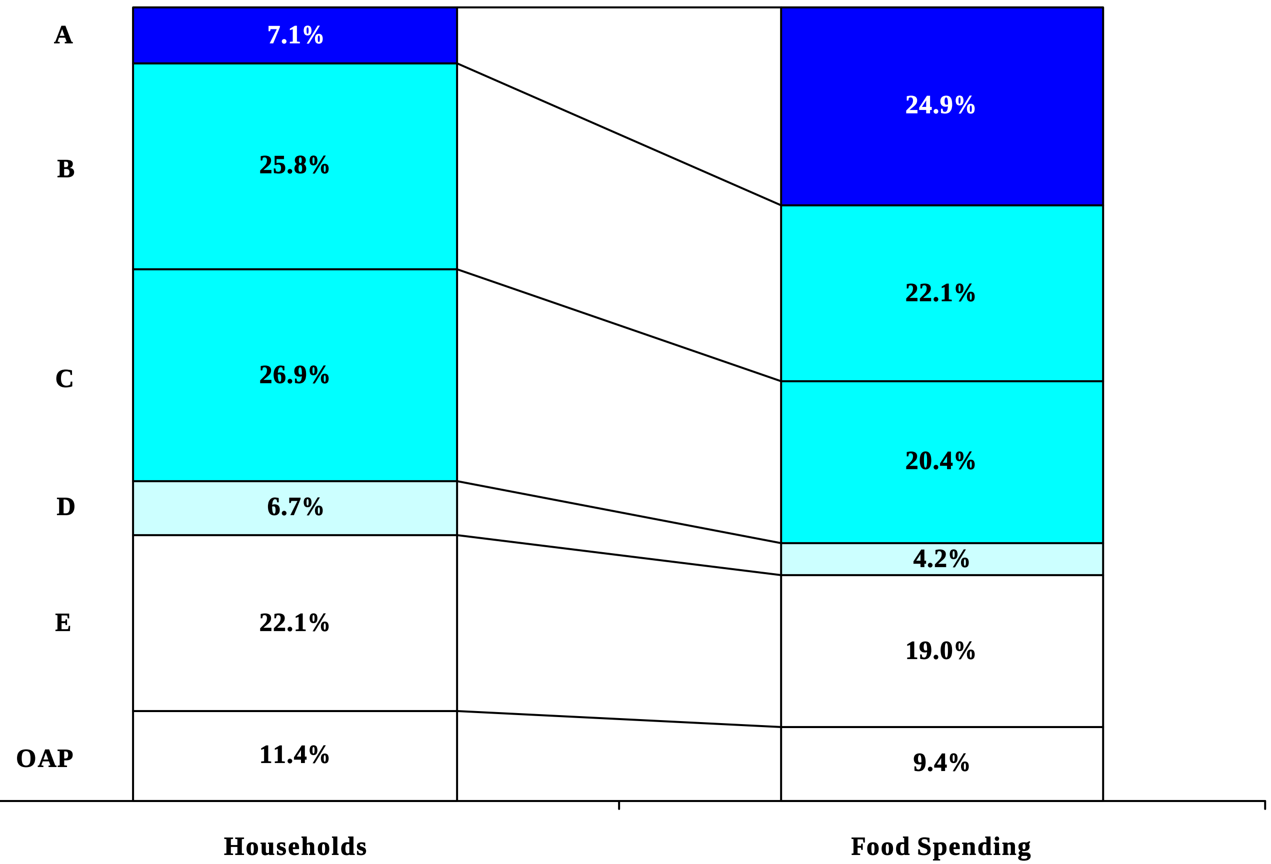
The higher the income the more spent on food



1: Including Alcohol; 2. Gross weekly income by head of household, one or more earners A1= £910+, A2= £910-£640+, B= £640-£330, C= £330-£160, D= under £160; Households without an earner E1= £160+, E2= Under £160; Pensioner
Source: MAFF, National Food Survey

The richest 7% of UK households account for 25% of food spending

INCOME GROUP:HOUSEHOLDS V. FOOD SPENDING[1,2]
(Percent; 1998)



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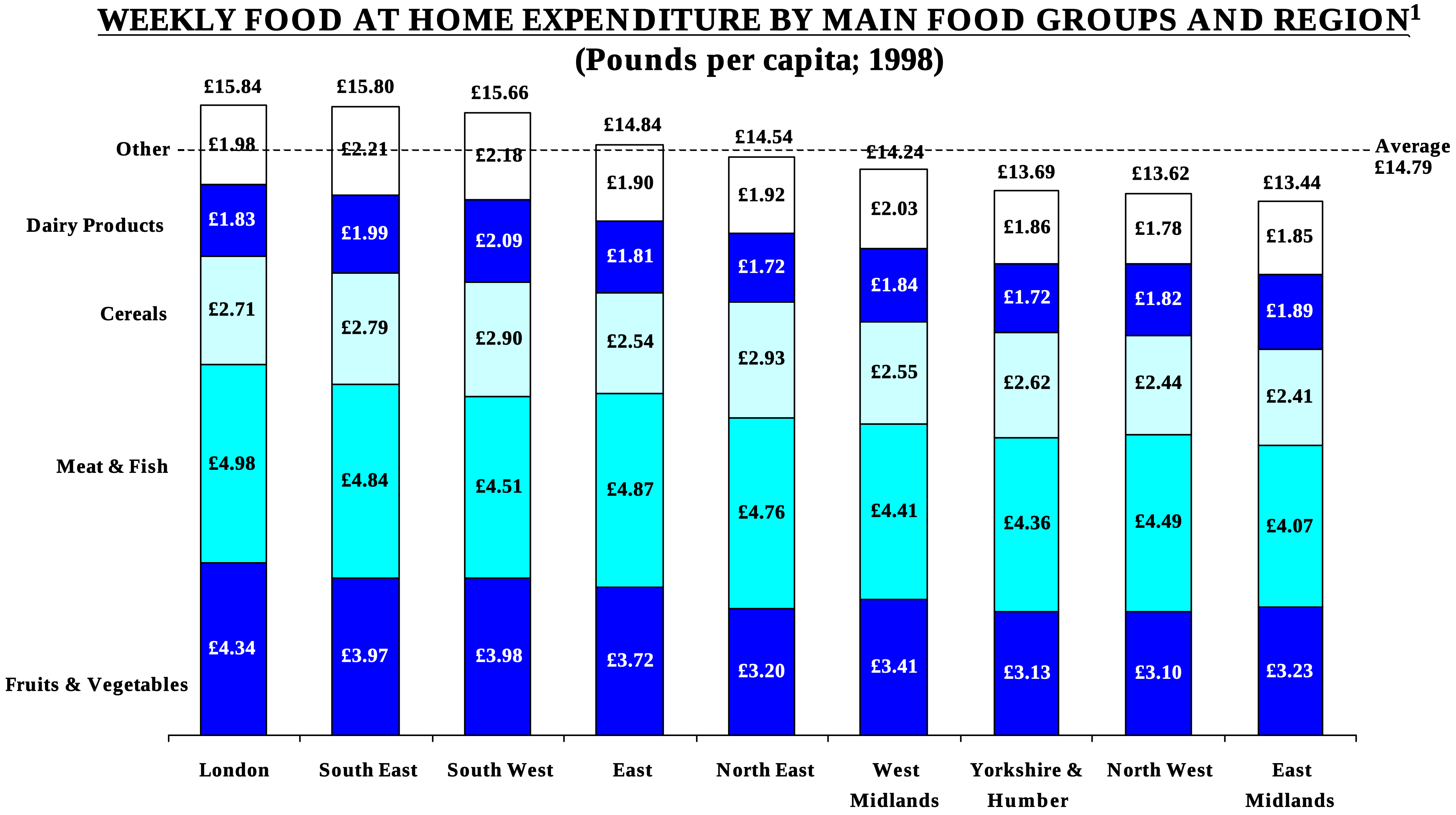
Source: MAFF, National Food Survey

People in the South of England spend the most on food



1: Excluding Alcohol
Source: MAFF, National Food Survey

IV. Food retailing, especially by supermarkets, is highly competitive forcing the various chains to differentiate themselves by targeting specific customers

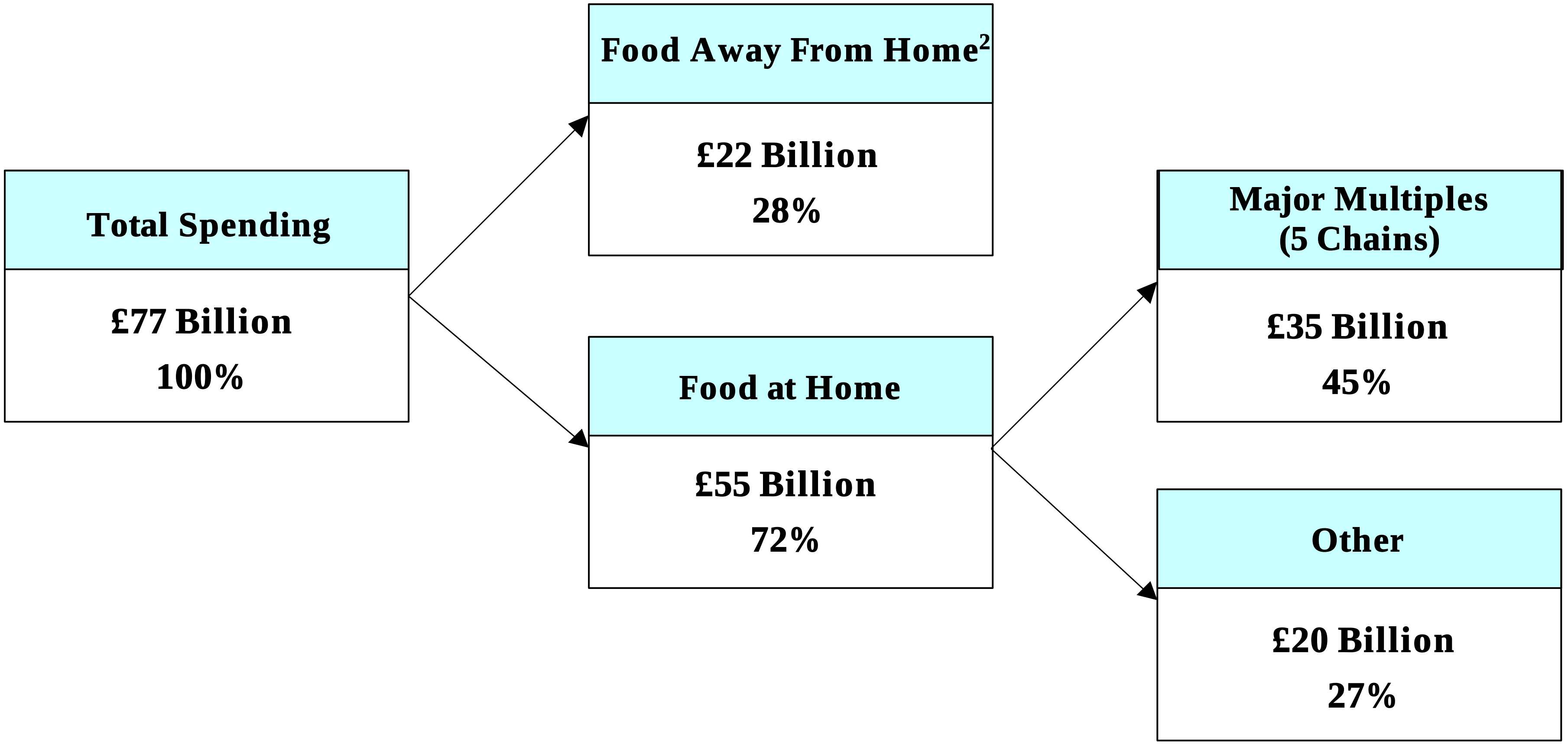
- **Food is a £77 Billion industry in the United Kingdom**
  - **Restaurants and Cafes dominate the food away from home market**
  - **Over a quarter of a million foodservice outlets exist in the UK with no truly dominant players**
- **Supermarkets dominate the £55 Billion retail food sector[1]**
  - **Food at home sales are highly concentrated; five Major Multiples account for 49.9% of turnover**
  - **The competitive UK supermarkets has produced a number of well respected chains**
  - **Supermarket chains target different shoppers in different income groups and this positioning is reflected in their customer mix**
  - **The AB chains have most of their stores in London and the wealthier South**

1: See Appendix A for Supermarket profiles

Food is a £77 Billion industry in the United Kingdom

UK FOOD AND ALCOHOL EXPENDITURE BY CHANNEL[1]

(Pounds Billion; 1999E)

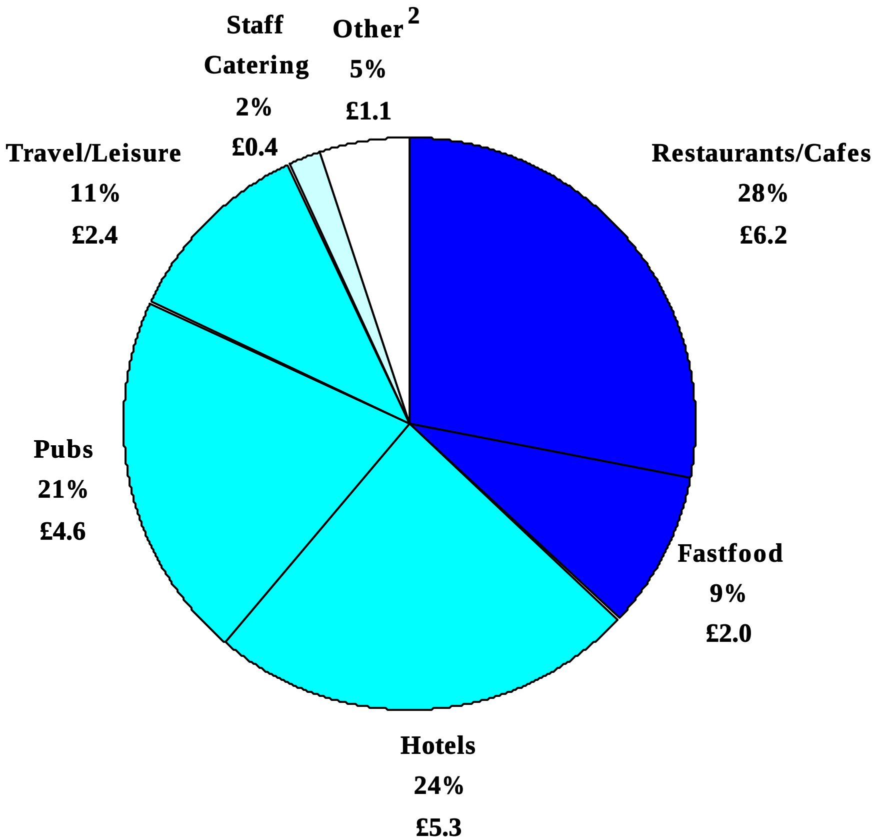


1: Does not include non-foods, HBC, pet food, petrol etc 2: Includes non-personal food spending such as business meals, hotel dining, tourists, institutions (prisons, hospitals) and other

Source: ONS, MAFF, National Food Survey, IGD, Various Annual Reports, Coriolis Analysis

Restaurants and Cafes dominate the food away from home market

UK FOOD AND ALCOHOL AWAY FROM HOME MARKET SHARE[1]
(total retail sales; percent; Billions; 1999E)



TOTAL = £22.0 Billion

1: Includes alcohol (£5 Billion or 22.6% of Food Away from Home expenditure) 2: Includes Health Care, Education, Services and Welfare
Source: IGD

Over a quarter of a million foodservice outlets exist in the UK with no truly dominant players

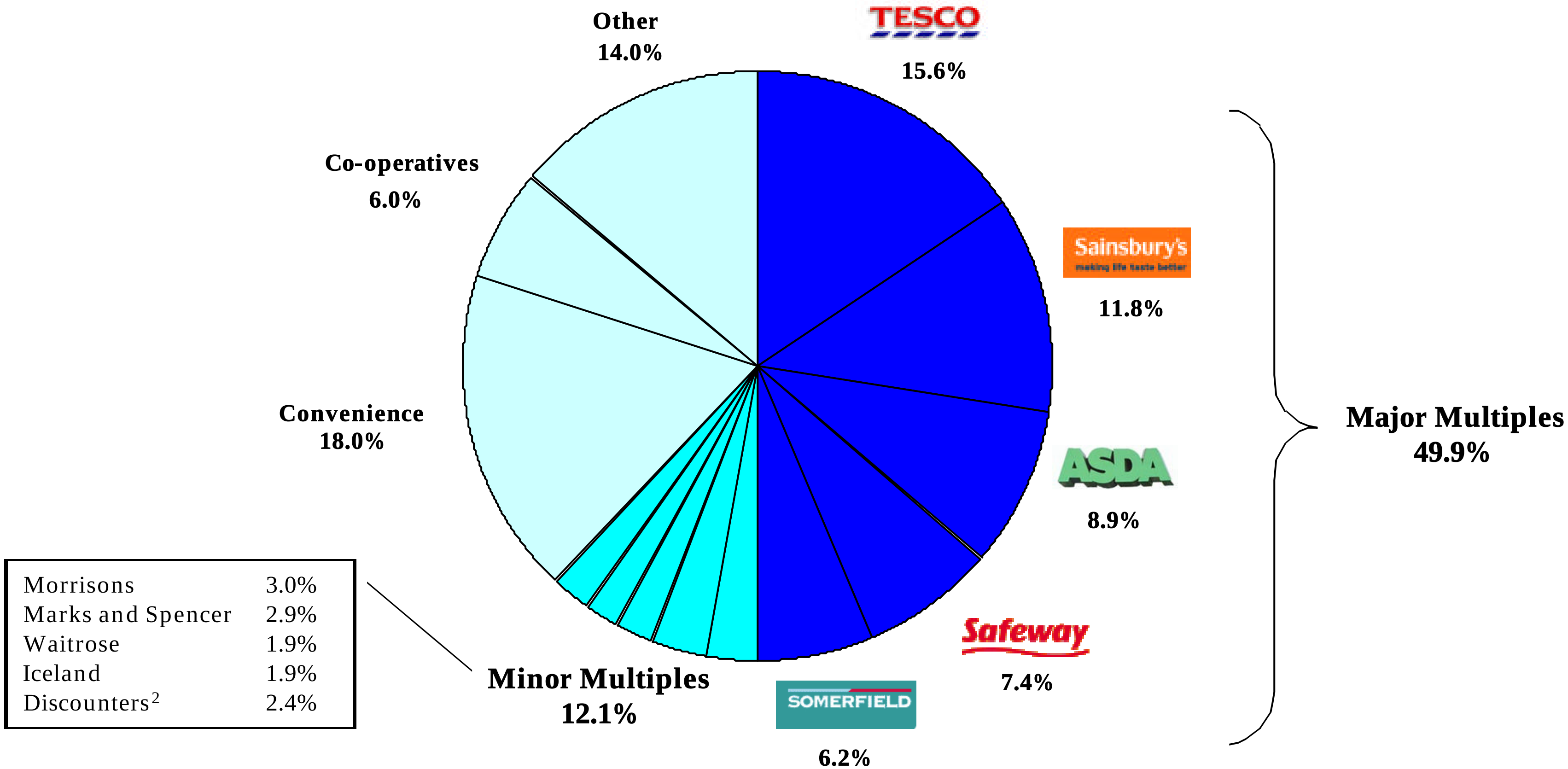
UK FOOD AND ALCOHOL AWAY FROM HOME

Segment	Sales (£B99)	Market Share (% Sales)	No. of Outlets (1999)	Main Players
Restaurant/Cafes	£6.2	28%	45,787	Pizza Express, Cafe Rouge, Conran,
Fastfood	£2.0	9%	2,067	Tricon, McDonalds, Burger King, Wimpy
Hotels	£5.3	24%	60,991	Granada, Whitbread, Jarvis, Hilton, Stakis
Pubs	£4.6	21%	55,945	Allied Domecq, Whitbread, Bass, S&N, Normra
Travel/Leisure	£2.4	11%	49,655	P&O, Compass, First Leisure, Bass Leisure
Staff Catering	£0.4	2%	21,041	Compass, Granada Food Service, Gardner
Other	£1.1	5%	62,386	NHS, Compass, Granada Food Service, Gardner
Total	£22.0	100%	297,872	

Source: IGD

Food at home sales are highly concentrated; five Major Multiples account for 49.9% of turnover

UK FOOD AT HOME MARKET SHARE[1]
(Total Retail Sales; Food and non-food; 1999)



TOTAL = £96.6 Billion

1: Total UK supermarket sales: Food (£55 Billion) and non-food (£42 Billion); 2. Includes Aldi, Lidl, and Netto
Source: Various Annual Reports; Hoovers; Company websites; FAS; Coriolis Analysis

The competitive UK supermarket sector has produced a number of well respected chains

UK SUPERMARKETS[1]

Group	UK Sales (£MM99)	Operating Profit (£MM99)	Sales CAGR (95-99)	1999 Market Share (% Sales)	Number of Stores	Average Sales/Store per Week
Tesco	£16,958	£993	10%	15.6%	659	£495,000
Sainsbury	£12,097	£714	5%	11.8%	405	£575,000
Asda	£8,198	£413	8%	8.9%	240	£657,000
Safeway	£8,100	£357	7%	7.4%	470	£331,000
Somerfield[2]	£5,898	£159	18%	6.2%	1400	£81,000
M&S[3]	£2,900	N/A	3%	2.9%	289	£193,000
Iceland	£1,900	£78	9%	1.9%	763	£48,000
Waitrose	£1,853	£64	8%	1.9%	122	£292,000
Morrisons	£1,779	£114	9%	3.0%	110	£311,000
Co-op/CWS	£1,750	£130	1%	3.0%	1100	£31,000

1. United Kingdom data only, does not include international operations; 2. Includes Kwik Save; 3. Food sales only
Source: Various Annual Reports; Hoovers; Company websites; FAS; Coriolis Analysis

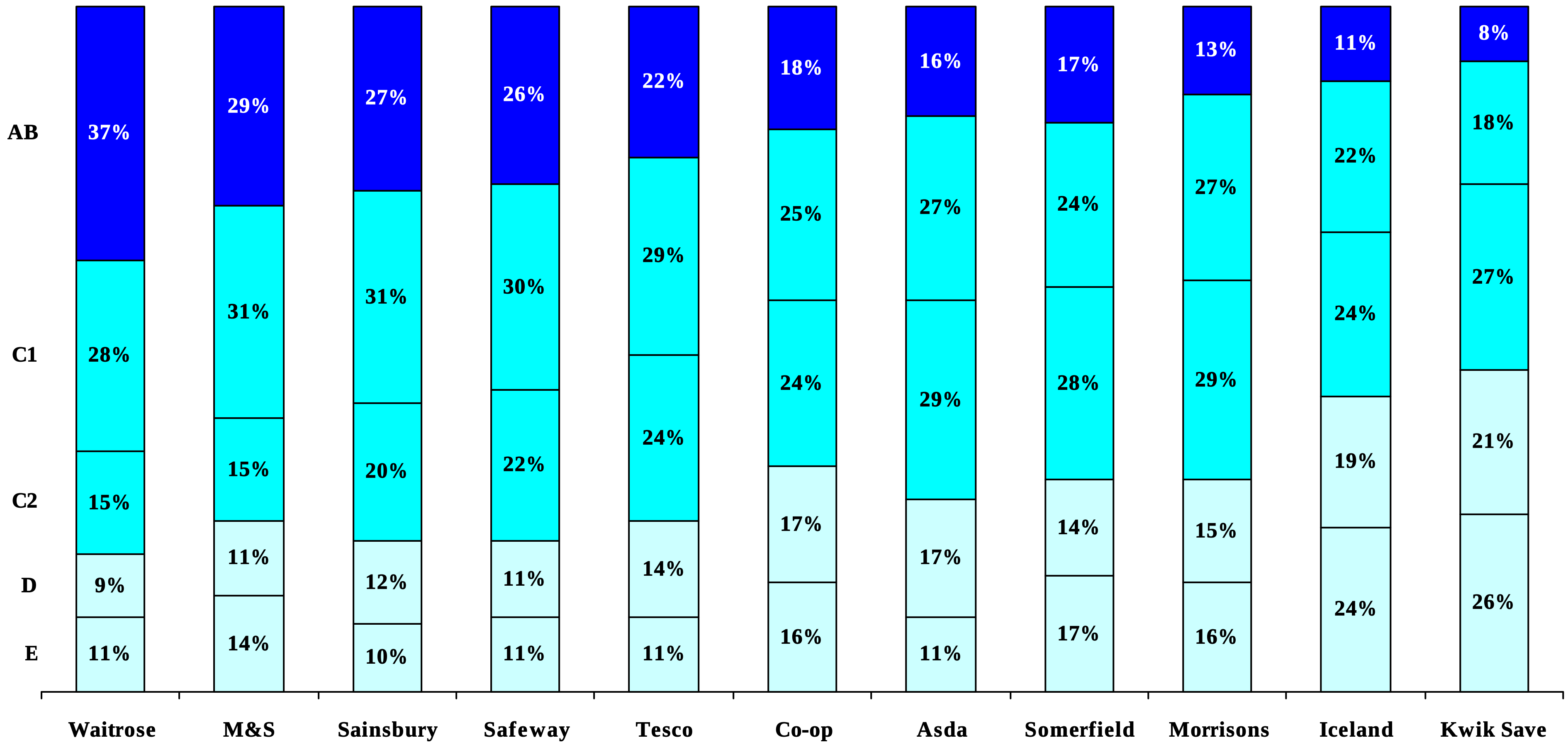
Supermarket chains target different shoppers in different income groups…

<u>STORE POSITIONING BY SOCIAL CLASS</u>

A	Waitrose	MARKS & SPENCER		
B	TESCO	Sainsbury's making life taste better	SAFEWAY	
C	ASDA	SOMERFIELD	Iceland.co.uk	
D	INDEPENDENTS	CO OP	MORRISONS	
E	ALDI	Netto	LIDL	KWIK SAVE value

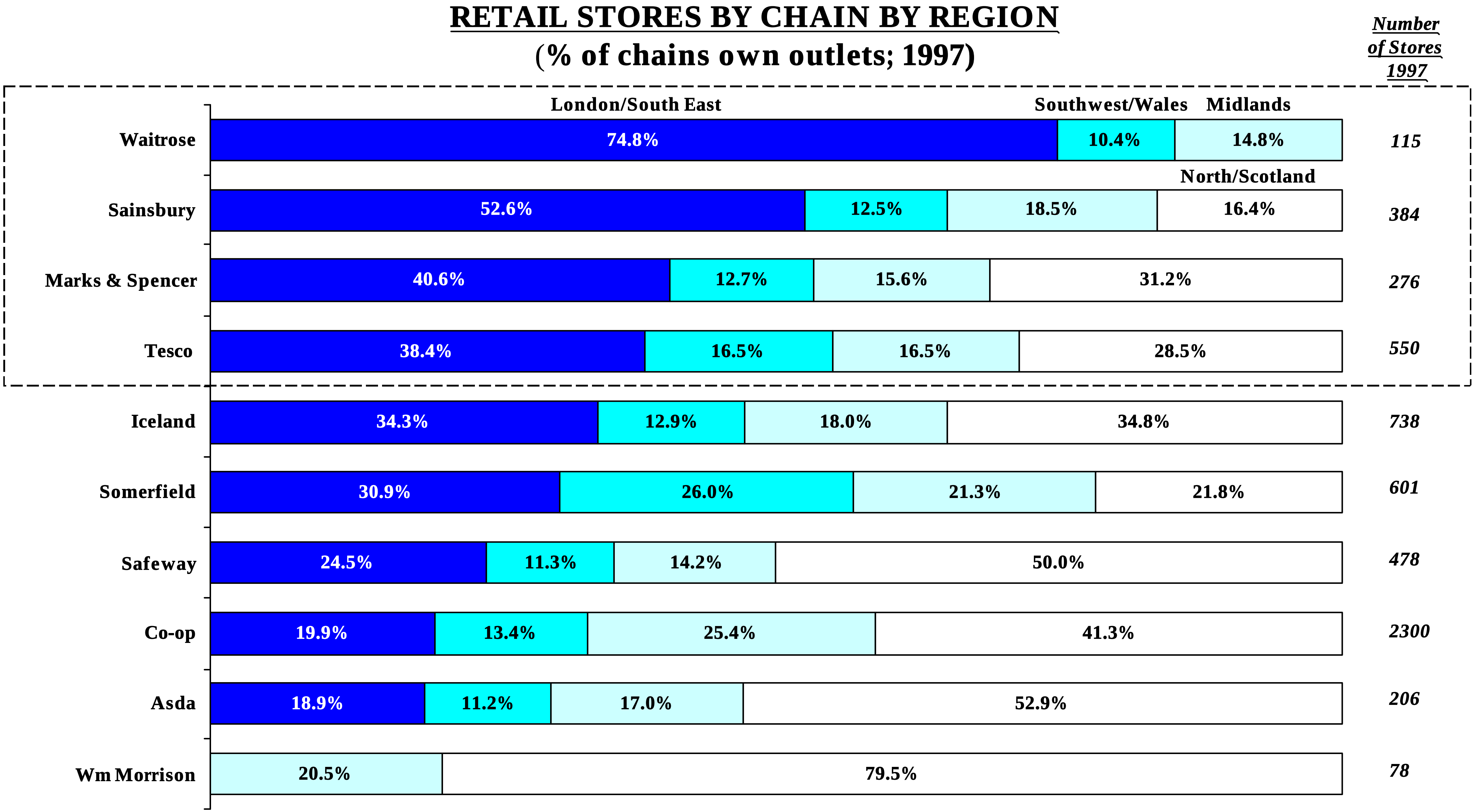
...and this positioning is reflected in their customer mix

TOTAL SUPERMARKET TURNOVER BY SOCIAL CLASS
(% of sales; by supermarket group; March 1998)



Source: Taylor Nelson AGB plc.

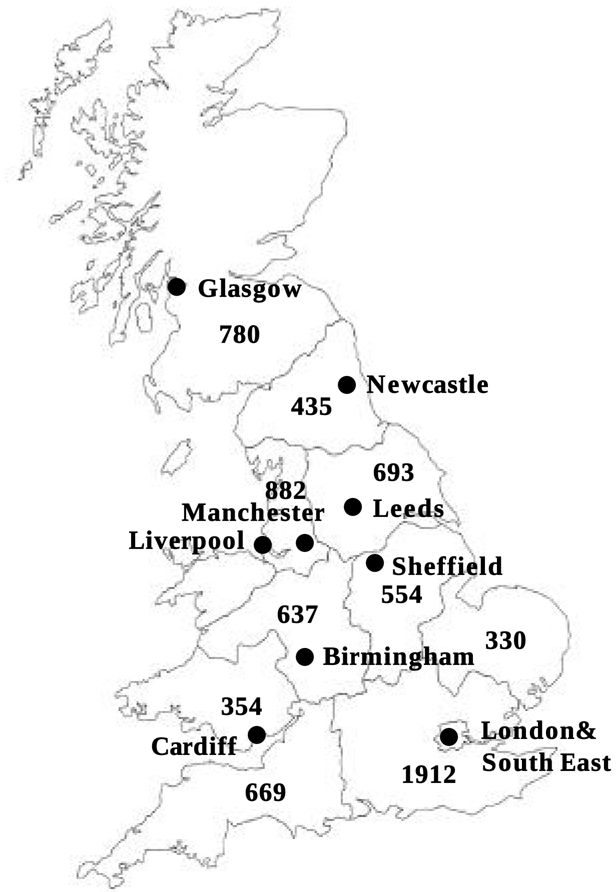
The AB chains have most of their stores in London and the wealthier South



Source: Williams de Broe

The location of supermarkets is directly related to population density

SUPERMARKET CHAIN OUTLETS BY REGION
(Number of chain supermarkets; 1997)



Source: Williams de Broe

Appendix A: Supermarket Profiles

- Tesco
- Sainsbury
- Asda
- Safeway
- Somerfield
- Marks and Spencer
- Iceland
- Waitrose
- Morrisons
- Co-op

TESCO PLC PROFILE[1]

TESCO		Tesco House Delamare Road Chestnut Herts EN8 9SL UK	
Group Sales (£B):	**£20.4**	**Market Share:**	**15.6%**
UK Sales (£B):	**£18.3**	**Location:**	**Nationwide**
UK Sales CAGR (96-00):	**10.0%**	**Number of Stores:**	**659**
Group Operating Profit (£B):	**£1.0**	**Store Type:**	**Superstore, Metro, Express, Compact**
OP % of Sales	**5.1%**	**Number employees:**	**131,031**
UK Operating Profit (£B):	**£1.0**	**Ownership:**	**Publicly listed, UK**

1. 2000 financial figures

SAINSBURY PLC PROFILE[1]

Parent Company: J Sainsbury plc	Stamford House Stamford Street London SE1 9LL UK

Group Sales (£B):	£16.3
UK Sales (£B):	£12.1
UK Sales CAGR (95-00):	5.2%
Group Operating Profit (£B):	£0.87
OP % of Sales	5.3%
UK Operating Profit (£B):	£0.71

Market Share:	11.8%
Location:	Nationwide
Number of Stores:	405
Store Type:	Sainsbury, Savacentre Sainsbury Local,
Number employees:	130,000
Ownership:	Publicly listed, UK

1. 1999 financial figures

ASDA PROFILE[1]

Parent Company: Wal-Mart	ASDA House, Southbank, Great Wilson St. Leeds LS11 5AD, UK

Group Sales (£B):	N/A	Market Share:	8.9%
UK Sales (£B):	£7.6	Location:	Nationwide
UK Sales CAGR (95-00):	N/A	Number of Stores:	240
Group Operating Profit (£B):	N/A	Store Type:	Asda, Dales
OP % of UK Sales	5.4%	Number employees:	78,450
UK Operating Profit (£B):	£0.41	Ownership:	Publicly listed, USA

1. 2000 financial figures

SAFEWAY PLC (UK) PROFILE[1]

Safeway

6 Millington Road
Hayes,
Middlesex UB 3 4AY
UK

Group Sales (£B):	**£8.1**
UK Sales (£B):	**£7.9**
UK Sales CAGR (95-00):	**7.0%**
Group Operating Profit (£B):	**£0.42**
OP % of Sales	**5.2%**
UK Operating Profit (£B):	**£0.43**

Market Share:	**7.4%**
Location:	**Nationwide**
Number of Stores:	**470**
Store Type:	**Safeway**
Number employees:	**76,000**
Ownership:	**Publicly listed, UK**

1. 1999 financial figures

SOMERFIELD PLC PROFILE[1]

SOMERFIELD

Somerfield House
Whitchurch Lane
Whitchurch
Bristol BS 14 0TJ
UK

Group Sales (£B):	**£5.9**
UK Sales (£B):	**£5.9**
UK Sales CAGR (95-00):	**24.0%**
Group Operating Profit (£B):	**£0.10**
OP % of Sales:	**1.7%**
UK Operating Profit (£B):	**£0.10**

Market Share:	**6.2%**
Location:	**Nationwide**
Number of Stores:	**470**
Store Type:	**Somerfield, Gateway, KwikSave, Food Giant**
Number employees:	**62,000**
Ownership:	**Publicly listed, UK**

1. 2000 financial figures

MARKS AND SPENCERS PLC PROFILE[1]

MARKS & SPENCER

Michael House
37-67 Baker Street
London W1A 1DN
UK

Group Sales (£B):	£8.2
UK Food Sales (£B):	£2.8
UK Sales CAGR (95-00):	3.0%
Group Operating Profit (£B):	£0.63
OP % of Sales:	7.7%
UK Operating Profit (£B):	N/A

Market Share:	2.9%
Location:	Nationwide
Number of Stores:	289
Store Type:	M&S
Number employees:	3720
Ownership:	Publicly listed, UK

1. 1999 financial figures

ICELAND GROUP PLC PROFILE[1]

Iceland.co.uk

Second Ave.
Deeside Industrial
Park Deeside,
Flintshire CH5 2NW,
UK

Group Sales (£B):	£1.9
UK Sales (£B):	£1.9
UK Sales CAGR (95-00):	9.0%
Group Operating Profit (£B):	£0.78
OP % of Sales:	4.1%
UK Operating Profit (£B):	£0.78

Market Share:	1.9%
Location:	Nationwide
Number of Stores:	763
Store Type:	Iceland, Bhs Store Iceland Extra
Number employees:	11,754
Ownership:	Publicly listed, UK

1. 1999 financial figures

WAITROSE PROFILE[1]

Waitrose

171 Victoria St
London SE 1E 5NN
UK

Parent: John Lewis Partnership

Group Sales (£B):	£3.7
UK Food Sales (£B):	£1.8
UK Sales CAGR (95-00):	8.0%
Group Operating Profit (£B):	£0.21
OP % of Sales:	5.7%
UK Food Operating Profit (£B):	£0.64

Market Share:	1.9%
Location:	England
Number of Stores:	122
Store Type:	Waitrose
Number employees:	23,300
Ownership:	Employee owned

1. 1999 financial figures

MORRISON SUPERMARKET PLC PROFILE[1]

	Hilmore House Thornton Rd. Bradford, West West Yorks BD8 9AX UK

Group Sales (£B):	£3.0
UK Retail Sales (£B):	£1.8
UK Sales CAGR (95-00):	9.0%
Group Operating Profit (£B):	£0.12
OP % of Sales:	4.0%
UK Retail Operating Profit (£B):	£0.11

Market Share:	3.0%
Location:	England
Number of Stores:	110
Store Type:	Morrisons
Number employees:	22,000
Ownership:	Publicly listed, UK

1. 2000 financial figures

CO-OPS PROFILE[1]

Co-operative Wholesale Society	**Freepost MR9473** **Manchester** **M4 8BA** **UK**

Group Sales (£B):	**£4.4**	**Market Share:**	**3.6%**
UK Food Sales (£B):	**£1.8**	**Location:**	**Nationwide**
UK Sales CAGR (95-00):	**1.0%**	**Number of Stores:**	**1100**
Group Operating Profit (£B):	**£0.13**	**Store Type:**	**Welcome**
OP % of Sales:	**3.0%**	**Number employees:**	**N/A**
UK Food Operating Profit (£B):	**£0.43**	**Ownership:**	**Co-operative**

1. 1999 financial figures