

J Sainsbury plc
Nectar Deep Dive Event
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Presentation

Mark Given
Chief Marketing Officer

Good afternoon, everyone, and welcome to our Nectar Deep Dive Event. It's really great that so many of you have been able to join us virtually this afternoon. When we talked with investors and analysts, we observed that the questions on Nectar were becoming more frequent, so that was the catalyst for this and the first time we've ever done an event specifically dedicated to this section of the business.

Let me start with some introductions. My name is Mark Given, as Chief Marketing Officer I have operating board responsibility for marketing, loyalty and the strategy and planning of our sustainability. I've got the full team with me today. Amir leads Nectar360, accountable for client relationships and delivery of our commercial plan. Alex Naisby leads Loyalty and CRM across the retail business in Nectar. Alex Jardine leads our analytics teams across marketing in Nectar. And you'll see Alice do some demos; Alice is pioneering our digital products across a number of the platforms.

So, in terms of how the session is going to work, you'll hear some presentations from us and that will take you up to the first break at 1:45, we'll give you a chance to recharge your tea and coffee cups. We'll then present for a bit further where we'll have another break at 2:25. That's going to be the transition from the presentation section into the Q&A. We want to give you plenty of time to ask the panel any questions that come up.

In terms of questions, for those of you joining on the webcast, hopefully you'll see a box at the bottom of the screen. If you can be submitting your questions as we go through the event, and then James will collate those, and we'll use them to guide the discussion later on. If you are joining us on Teams, you'll also have an opportunity to ask the panel directly.

So, in terms of content, I guess the first thing I'd say is we're super proud of the capability we've built on Nectar since we acquired the full business in 2018 and if we achieve nothing else today, we want you to leave with an understanding of what Nectar does, what it is and why we're so excited for the future. Now I absolutely recognise that there's going to be a wide range of expertise and knowledge on the call today, so I make no apologies for the fact we're going to try and explain this from first principles and with as little business and marketing jargon as we possibly can.

In terms of the content, I'll talk a little bit about some of the UK and global macro forces that we see shaping growth in this area and then we'll deep dive on Nectar from a Business to Consumer perspective and a Business to Business perspective. Let me just explain what I mean. The Nectar coalition we call the business to consumer, - hopefully you're all familiar with that - using the app and for scanning your points, perhaps still legacy swiping with a card, earning points and redeeming them across all our partners. That's the B2C bit.

That gives us a fantastic dataset that lets us give great insight into our retail business, but it also means we can power Nectar360. Nectar360 is what we call our business to business, full service, marketing agency. That works with the coalition partners and hundreds of our suppliers to build their marketing plans across our store and digital assets. So, those are the two areas we'll focus on, and as I say, plenty of time for Q&A as we get into it.

It goes without saying that everything you see today is absolutely in service of our strategy. Simon talked in November about how we're fully lined up behind these five key priorities. Nectar is increasingly at the heart of our business. It's absolutely critical to help us drive our Food First strategy, it's really integrated into Argos, Habitat and Tu under Brands That Deliver, and it absolutely helps us get connected to all our customer base and finally, you hear how increasingly we're using Nectar incentives to help us deliver our sustainability goals under Plan for Better.

Okay, so let's get in and talk about some of the context that you see today. The first point I'd make is that we continue to see a huge channel shift in the UK grocery. Discount online convenience are about 40% of the market and projected to drive the growth in the future and that presents some opportunities and also some threats for a lot of the brands that we work with. Discounters - typically brand light, own brand heavy - online is fantastic but for brands it's competing for eyeballs on ever smaller screens and convenience given its size and scale and ranges is more limited in terms of activation. So, what the brands tell us they've increasingly got to make every customer interaction at the point of purchase count.

Online was growing strongly and steadily 2017 to '19 pre-pandemic and obviously you'll be aware of the huge increase in this channel through the COVID period, roughly UK online grocery is double the size it was today. Certainly, when we talk to customers, a number of them are into this habit, so online is a significant part of the UK grocery market, is here to stay and expand and lots of our brands are really interested in building their capability and investing to drive the shopper marketing plans in this channel.

The reality for customers though is they tell us they're increasingly bombarded with marketing messages, whether it's in your email, your social media feed, other visual and sonic branding. So, the table stakes is relevant and personalised message to me. Customers absolutely expect brands to know them and to give them messages that are relevant, otherwise their attention can be pretty short.

Now, we also absolutely believe that retailers with a large online presence and large first party datasets - by that I mean customers who are registered directly with a company, often with marketing permissions as well - can become significant digital media players.

I've talked a little bit already about the shift to e-commerce, picking up under point 2, one of the things we hear from a lot of our clients is the importance of marketing return on investment. A digital marketing ad that's served really close to the point of purchase on an e-commerce site can be really effective. With Nectar data we can close the loop; by that we mean show the impact of the digital marketing down to the sales line and we're showing marketing return on investment of £2 to £4 for every £1 invested.

We also help a number of our partners and give them deep shopper marketing insight on our physical and online channels and if you look at the direction of travel of the big US tech companies, it absolutely points to the death of the third-party cookie probably over the next 24 months. Remember, a cookie is just a piece of code that allows people to track different individuals across the internet and in that environment, having a first party dataset that's large and you can activate into the Google universe, Facebook and the wider web, is going to be hugely valuable.

We also believe that whilst the UK digital media market is big today, it's going to grow further, up to about £4.5 billion by 2025, so let me just explain this chart a bit more clearly. If you look at the column on the left - the £3 billion - that's £3 million [sic] of digital marketing spend from the FMCG sector and consumer electronic sector; we call that the addressable

spend for the Sainsbury's and Argos business. Within that £3 billion the blue bar - about 84% - is what we call off-site. It's off-site for an e-commerce platform, typically invested in Google search, Facebook or across the published web.

The next bar up - the aqua one at 14% - we call that on-site digital media advertising. So, advertising on an e-commerce site like grocery online, Argos or competitive equivalents and there's a small slice of off-site which is different channels like email or digital outdoors.

So, if you go to the right, looking at some of the forecasts, we predict that addressable area to grow to £4.5 billion and, interestingly, we'd also predict the on-site digital marketing spend on e-commerce platforms to represent about 26% of that to show growth. So, clearly, an 11% compound growth rate, this market is going to grow faster than the grocery or even the grocery online market.

Now, when we think about our capability in this area, we would judge ourselves to be best in class in European retailers and what that means is we increasingly look to the US for, I guess, inspiration and to stretch our thinking. We'd absolutely concur that the most advanced retailers are successfully and very rapidly scaling their digital media network, particularly in the US as the online market grew rapidly there through the COVID pandemic. We've seen a number of players either scale up their internal capability, get into partnerships with particular tech platforms, or even make acquisitions in this space.

We've seen Walmart talk about in the next 5 years they want to become a top 10 US media player and a number of you have written about advertising being the hidden profit stream for many big retailers. So, I guess we think we're really well placed to capitalise on this opportunity and deliver strong growth for Sainsbury's. With the Nectar brand it's very recognisable, it's very trusted and it's got a very large first party dataset.

Under Nectar360 we've got a very mature client service capability that we think is a really strong advantage in this area. I'd also argue over the last 18 months we've done some of the heavy lifting in some of the deep integrations into Google, into Facebook and some of the other published platforms, as well as build some of the machine learning algorithms, and you'll hear a bit more about that from the team throughout the day.

So, before I hand over to the team to do the first deep dive, we're just going to play a short video. I guess it's intended to give you a bit of an overview and then the team will talk a bit more specifics in some of the areas. So, if you could play the video now that would be great.

[Video playing]

Alex Naisby **Head of Loyalty & CRM**

Hello everyone, I'm Alex Naisby, Head of Loyalty & CRM here at Sainsbury's. I know that all of you are already avid Nectar collectors and really understand the programme from a customer perspective; however, this afternoon, alongside Alex Jardine and I, we're going to spend some time lifting the lid on our customer programme; how it works for customers, how it drives our retail strategy, and why the coalition data model is the real lifeblood of our B2B proposition, Nectar360.

So, what is the Nectar programme? Well, it's the UK's most extensive coalition loyalty programme and it's made up of 12 of the UK's leading brands, including Sainsbury's, eBay, Esso, Argos and, of course, British Airways. These five brands, they're the flagship brands within the programme and we call them our gateway brands because typically, as the

biggest partners of the scheme, it's where many of our customers discover Nectar for the very first time. We've got 17.5 million customers using Nectar with one or more of these partners to collect points worth the equivalent of £200 million every year and that means a Nectar card is being scanned at one of our partners 29 times a second.

Every time they scan their card, they're creating masses of data relating to what they buy, why they buy it, where they buy it and of course this helps us understand exactly who they are. It's this data that enables us to connect to them more personally as individuals, recognising their individual shopping habits and needs. It's particularly true in our digital channels, where Nectar is at the very heart of Sainsbury's' rapid transformation from paper-based marketing driving short term sales, to a truly customer centric approach with digital personalisation at its core.

We've got 8.2 million digitally registered Nectar customers and we're on track to hit 10 million next year. This data is also the reason we're able to support our partners to grow their businesses through regular and relevant marketing activity, powered by Nectar. On average our partners see incremental customer spend with their brands of between 6% and 15% as a result of Nectar participation.

So, let's think about how customers earn and spend their points. So, the Nectar programme is built on a very simple value exchange between customers and partners of the scheme. So, customers earn points with a partner every time they scan their card and in return, we at Nectar, we capture their data, a really transparent and trusted exchange. Once the customer has saved enough points, they'll redeem or spend them with one of the participating partners and the beauty of Nectar, and this is where the coalition really comes in, is customers have got lots of routes to earn more points across a wide range of their everyday spend outside of Sainsbury's.

It could be when they spend on travel with British Airways, it could be on spend with retailers like Argos and eBay, or even hundreds of online retailers in our affiliate programme, eShops. Our most savvy customers, well, they're also collecting points on their financial services transactions with Sainsbury's Bank and Amex.

Not only are customers earning points in lots of places, they also get to choose to spend them on the things that are really important to them, so that is for a lot of our customers the big Christmas shop at Sainsbury's. It might be birthday gifts, or an emergency replacement Hoover at Argos or eBay or for some of our customers exchanging their points at Avios for a weekend in Paris.

The coalition nature of Nectar, that's really loved by our customers because not only does it provide them a faster way to earn more points across all of their spend but also a great choice in where to spend them and it's this collect and redeem cycle that really drives ongoing engagement with the programme.

So, how does the relationship between points earned and points redeemed create value for Nectar economically? Well, again, it's a pretty simple model. For every point issued or earned by a customer, the related partner pays us at Nectar for that point at a greater value than it's actually worth to the customer, which is around half a penny. So, for every £50 spent in eBay, the customer will earn 50 points and eBay will pay us slightly more than the points are actually worth to the customer.

On the flip side, for every time a customer spends a point at a partner, we pay that partner an agreed value for the point at a rate slightly less than the actual redemption rate. So again

as an example, if a customer transfers £100 worth of points to Avios we pay them just less than that £100.

So put simply we sell points at a greater rate than the face value and then cover the cost of the transaction or the redemption at a discounted rate. So in addition to this partners also pay Nectar for services and channels that they access through our partnerships with them and it's a combination of these three elements that really generate our margin.

At this point it's really important to note that we actively encourage our customers to spend their points. The majority of points issued every year are realised in real value for our customers in that year. It's important for the health of the scheme because we know that customers who enjoy value from their points are the customers that we really create loyalty with and it's they who actively chase more points in the future and share even more data with us.

I'm now going to hand over to Alex Jardine and he's going to talk a little bit more about how we're using that data to personalise our customer experience.

Alex Jardine **Head of Analytics**

Thank you, Alex. Good afternoon, everyone. Alex has given me a quick intro there, but I'm Alex Jardine. I'm Head of Analytics here at Sainsburys. Now that Alex has given you a bit of broader context on the program, I wanted to dive a little bit deeper and really bring to life some of the fantastic progress that we've made in taking the program digital. I'll also share more details on how we're using Nectar to truly personalise the service and experience we can offer our customers to drive our food first strategy.

At its heart, Nectar generates a deep set of first party customer data on who our customers are and how they interact and shop with us. It's a really rich resource which when we couple it with our analytical expertise gives us a 360-degree view of who our customers are, how they shop and most importantly how we can serve them best.

As you can imagine this data and insight is incredibly powerful and it's used right across our business. From the best locations to building stores based on the local catchment demographics to optimising our range based on how our customers shop a particular category right through to determining a customer's sensitivity to price and their overall potential value to Sainsburys. So the Nectar data set it's a really critical tool for us to connect with our customers and as I say to drive that Food First strategy that already talked through.

So as we continue to develop our capabilities to offer even greater personalisation to our customers, the core Nectar data set remains an absolutely key enabler of many of the future propositions we're developing and I'll touch more on those shortly.

To truly maximise the value we can unlock from Nectar, we've been on a journey to migrate our customers from the legacy paper-based program onto a fully digital proposition which we launched in October 2019.

The critical thing is the Nectar digital proposition enables us to engage with our customers in a truly one to one way, offering customers highly relevant and personalised offers and services and content based on their shopping habits and our detailed understanding of their needs.

At previous investor events, Simon has talked about our drive to hit 10 million registered Digital Nectar collectors and I'm really pleased to say we're well on track to hit that with over 8.2 million customers currently registering on the platform.

A scaled digital base is absolutely fundamental to our ambition to offer more of our customers highly personalised and relevant services. We've been building a scale through a combination of marketing campaigns such as the digital supercharge campaign featured on the right of this slide, one of our biggest campaigns actually since the program originally launched. But also through adding extra utility and functionality and propositions into the app to engage and excite our customers.

Once a customer is registered for Digital Nectar, we want to ensure that they continue to come back and remain engaged on a regular basis with a proposition visiting the website or visiting the app on a regular basis. To drive ongoing engagement with Digital Nectar each week we offer every customer a completely personalised set of points offers on Sainsbury's products relevant to them.

Driven by our data and our machine learning analytics our personalisation engine selects the products that will be most relevant for our customers and enables us to flex the generosity of the offers we provide based on a customer's value and loyalty to Sainsburys. It's a really highly precise lever enabling us to allocate our points investment on those customers who will deliver the greatest benefit to Sainsburys.

Our analysis shows us that it's working, with Digital Nectar driving incremental sales into our food business with an ROI multiple of between 3 and 5 on the points investment we're making on personalised offers. I'd also add that it's absolutely fantastic for customers. On average, our Digital Nectar customers have higher points balances and the average engaged Digital Nectar customer using the app can earn three times as many points compared to an average non-digital customer.

Whilst we know that our personalised points offers and Digital Nectar drive engagement and ultimately sales into Sainsburys, we also know that it's important to keep adding variety and breadth to keep customers coming back for more. So we've added additional features and utility into Digital Nectar to continue to gamify the experience and make it fun and engaging for customers and I'll talk through a couple of examples now.

So after a successful launch in 2020, our Great Big Fruit and Veg Challenge returned in June this year as a key customer-facing element of our Help Everyone Eat Better strategy. It offers customers a gamified experience to encourage them to add an extra portion of fruit or veg into their basket and to discover and try a new fruit and veg outside their existing repertoire. We saw some really positive behaviour shifts as a result, not only in terms of fruit and veg consumption but also in terms of wider Digital Nectar engagement with over half a million customers engaging and up 7% from the prior year.

Switching away from some of our traditionally transactional incentives, our year-end review activity was all about sharing of fun and interesting summary of a customer's shopping habits with them from the previous year.

Each customer received an overview of the items they bought, how many times they'd shopped and how many points they'd earned, and it created a really sticky digital property in the app and a real buzz with thousands of customers who were so excited they wanted to share their update on their social media feeds, again outlining a connection to Nectar beyond the core points-based loyalty program.

Finally, just to round out this section, our Collect For Christmas program is an annual campaign that encourages customers to save up their Nectar points to spend on their Christmas shop. It helps customers boost their balances in readiness to treat themselves for the big occasion and of course it enables Sainsburys to lock in that all important Christmas shop.

Building on the theme of increased utility and features, I wanted to introduce Nectar Prices which we launched in SmartShop at the end of September. So taking everything we've learned from the personalisation of Nectar points, we're now able to extend our unique level of personalisation beyond Nectar points onto prices.

Nectar prices enables us to offer each Digital Nectar customer a unique set of personalised prices on up to 10 products selected specifically for them each week. Initially, in this first phase of rollout, customers will need to shop through smart shop to receive their Nectar prices but we'll be rolling out to groceries online and across the wider estate in the future.

Earlier in the session, Mark talked about price perception as a key barrier that we're determined to tackle and we've made good progress with our wider Sainsbury's Quality Aldi Price Match and Price Lock campaigns which really highlight the quality and value available at Sainsburys.

However, I think it's fair to say that price remains a relatively blunt tool and therefore we believe our approach does truly personalise pricing bespoke to each and every customer based on their needs and shopping behaviours offers us a way to truly stand out in the market. We believe this is unique capability within grocery retail in Europe at the moment.

So bear with me, I'm going to talk you through at a high level some of the algorithms. So how does it work? So for each customer, the first step is to calculate their potential value to Sainsburys. So customers with a higher potential value for either their immediate or future predicated lifetime sales receive a larger Nectar Prices discount budget.

Secondly, based on the products that a customer buys we're able to develop a score for their price sensitivity. This is used to determine the depth of discount we offer with more price sensitive customers receiving fewer but deeper discounts.

Finally, we determine the product sector to offer Nectar Prices on. For those customers with headroom to spend more with Sainsburys, we offer more of the discounts on the products they already buy. Whilst for customers who perhaps are more loyal to Sainsburys, we offer the discounts across a broader range of product including some products which they already buy along with discovery and trade up products which we think they'd like. The result is a completely personalised set of prices for each and every customer and the opportunity for our customers to save up to £200 a year when they shop using Nectar Prices.

So to close out my section, I really just wanted to bring Nectar Prices to life with an illustrative example. So on the left we have a customer who we've identified as highly price sensitive and of medium potential value to Sainsburys. Based on our data, we can infer that this is a value conscious customer who maybe switching spend between the discounters and Sainsburys. So given their focus on value, we offer a deeper discount on fewer core commodity products.

On the right we have a loyal and high value customer who isn't price sensitive. This customer receives Nectar prices with a shallower discount across a broader range of products which include a number of discovery and trade up products that we think they'd enjoy based on their previous buying behaviour.

These are just two extreme examples to bring it to life, but each and every customer will receive a personalised set of prices on products in the same way driven from our personalisation engine.

Clearly, it's still early days. We're less than a month from launch. But even at this early stage we're really pleased with what we're seeing. We've already started to see some uplift in our smart shop usage and penetration and also with Digital Nectar and of course we'll be monitoring that closely as the rollout continues.

I just wanted to finish by really highlighting that I think the launch of Nectar Prices represents the culmination of many years' worth of knowledge and gained throughout this period through experimentation and testing with our Nectar offers and promotions.

Over this time, we've really developed and honed our decisioning engine and given the inherent complexity and iterative development required to build the underlying models we believe it to be a key differentiating capability to support the business in delivering our Food First strategy. With that I'll hand you back to Alex.

Alex Naisby
Head of Loyalty & CRM

Thank you, Alex. Love Nectar Prices. I have to say that on my prices this week I was really thrilled to see £1 off Fever Tree Mediterranean tonic. So I'll definitely be using that. Okay.

So, Mark explained earlier that Nectar plays a huge role in our Food First and Connected Customer parts of our corporate strategy. As such, it's so important that Nectar isn't just seen as a stand-alone program associated only with the app and the card but it's also woven deep into the fabric of all of our shopping missions.

As you can imagine over the last 18 years, customers have been really used to passively scanning their plastic card at the end of a shop usually prompted by a colleague. This habit is something that we're gradually trying to change with our digital proposition.

We want customers to think about value that they get from Nectar, not only at the end of their shop but also when they're planning to do their shop. So before their shop and actually during the shop itself. We want them to consider how can they actively earn more points by just making small adjustments to their shopping habits. So because of this we're continually looking for ways to raise the prominence of Nectar in our shopping missions.

So as an example, by surfacing bonus offers in SmartShop we're likely to get customers to add maybe one or two extra items to their shop instore. By highlighting which products have got bonus offers in them on groceries online we remind customers to add maybe an extra item, or even hunt out those extra items to add to their basket during their shop, making Nectar more discoverable, and of course more valuable to our customers.

So now thinking about Argos. So last year we launched Nectar Points issuance in Argos which we were absolutely thrilled about, and so far, the results are really positive. This not only gives customers another way to maximise their points balance but it also provides us with something that we've not been able to do before, and that's really view customer purchasing behaviour across our retail brands.

So far, the results are looking really good. More than 3.5 million customers have linked their Argos and Nectar accounts to earn points, and we're really pleased to say that we are ahead of our initial forecast in terms of both sales uplift and return on investment.

Now thinking even beyond Sainsbury's and Argos, here we are absolutely delighted to be delivering brilliant results for our largest partners. Brands like eBay, Esso, and British Airways, well, they partner with Nectar to increase their customer engagement and in turn sales. Out of our 17.5 million customers, 7.5 million of them are also using Nectar with another one of our big partners and make over 250 million transactions a year with Nectar outside of Sainsbury's and Argos.

Because of that, as I mentioned earlier, we typically see this generating between 6% and 15% of incremental sales for partners like this. This is turn benefits Sainsbury's because we know that the more engaged the customer is with the coalition, the more likely they are to engage with Sainsbury's in terms of earning and spending their points.

So you can see that the health of the coalition is therefore crucial to our food strategy, and we continue to strengthen our partnerships through signing new partners such as British Airways, who add not only digital scale to our programme but also a motivational reason to earn points at Sainsbury's for some of our customers who choose not to spend their points on their grocery shop.

We are also developing our own new innovative proposition such as Nectar Connect, where customers can collect points with a range of brands by simply linking their bank cards to their Nectar card, which is being made possible through changes in UK open banking legislation.

Beyond new propositions we are also extending our relationships with key partners should as eBay and Esso, who have both extended their commitment to the Nectar programme in long term arrangements this year.

Finally, by always looking ahead to identify how and where customers want to spend their points. We listened to customers and so next year we are going to launch Nectar Donate, which gives customers a choice of local and national charities to donate their points to.

So in conclusion, you know building the strength of the coalition to create a healthy and invest Nectar programme is so important to us. It's the breadth of the coalition that adds value for our customers. It's the scale of the coalition that attracts new partners. It's the engagement of the coalition that supports our food strategy, and it's the data from the coalition that provides the platform for our Nectar 360 commercial ambition.

Later in the session, Amir is going to talk a little bit more about exactly how we do that. For now, we are going to pause for a short break. If you could re-join the session at 1:50 that would be fantastic. Looking forward to seeing you soon, thank you.

Amir Rasekh
Director of Client Services, Nectar360

Hello everyone, welcome back. Hope you had a nice break. I'm Amir Rasekh and I head up Nectar 360 and I understand we haven't had enough questions yet, so if you could go into Webcast now and enter the questions that you have from the previous session or anything I raise please do it over the next 20 or 25 minutes.

Over the next section I will be covering the other side of the Nectar value equation, an overview of Nectar 360, our business-to-business brand, who we are, and what we do, and

our plans to accelerate our growth to win in data and digital. I'm going to really unpack what I mean by winning in data and digital.

Through a combination of some really visual slides, a video of one of our capabilities, and really, really bravely we're going to run a demo of one of our platforms live to you and virtually. I hope we can bring the business alive for you in a really engaging way. I should add, Alice from my team will be joining me shortly to run that demo of one of our platforms. I'll leave Alice to introduce herself fully in due course.

So let's get going. In summary, Nectar 360 is a loyalty, insights and marketing business. We work with some of the biggest brands in the UK. Our clients invest in four key capabilities. Now we've spoken a lot about loyalty and loyalty services already, our fantastic coalition of Nectar partnerships, our fantastic consumer programme, Purple Nectar, and that is the lifeblood of our business.

The first party data asset, that depth and breadth of customer understanding drives everything we do in our business and is the enabler of Nectar 360. So we've spoken a lot about loyalty services so I'm not going to go into huge amounts of detail. But where I am going to focus my attention is on our three other services, shopper marketing, data and insight, and digital media. I'm going to headline each one of them now and then go into more detail as we work through.

So shopper marketing is FMCG, and general merchandise supplier funded advertising in and around our store estate, allowing our clients to engage our shoppers throughout their journey in our stores. Data and insights is the use of Nectar data and insights to answer key business questions that our clients have, and that can be anything from general business performance through to range in products. Digital media, through our data is supplier funded advertising onsite, so that's [sainsburys.co.uk](https://www.sainsburys.co.uk) and [argos.co.uk](https://www.argos.co.uk) and offsite, so that's advertising on the wider web and on social platforms.

Just to be really, really clear on what I mean by offsite, that is advertising on thousands of websites like City AM, or the Met Office, and social platforms like Facebook, based on our Nectar audiences, based on actual buying behaviour.

This combination of our fantastic coalition loyalty offering, the scaled first party data asset and Nectar and an array of services, data insights and marketing, alongside deep integration into Sainsbury's and Argos makes Nectar 360 a unique offering.

As a consequence, we work with over 700 FMCG and GM brands every year. Everyone from the likes of Unilever and PepsiCo and Diageo, through to Samsung and Apple and Microsoft. It's really, really important to know given our focus is on driving greater relevance and personalisation for customers, our services are not limited just to the biggest brands. In fact, we serve hundred of smaller brands every year. We've structured ourselves to allow a service provision to the smallest of Sainsbury's and Argos supply base.

I'm now going to plan to go into a little bit more detail on shopper marketing, data and insights, and digital media services. So first up, our shopper marketing services a tenured and core part of our business. We've been building that for 10 years now. Brands invest in a portfolio of channels that allow them to engage customers across the journey in and around our store estate. This can range from email communications at home, digital panels in our car park, through to point of sale in aisle, and coupons at checkout. These are only four examples of a portfolio of channels that is 80 channels deep, really, really deep capability.

Nectar data allows us to pick the right stores based on customer behaviour, tweaking up and down channels based on that data and also based on the objectives of our clients, and serve relevant offers based on that same data through our customer targeted channels, such as email, coupons, and direct mail. Our shopper marketing capabilities resonate brilliantly with brands allowing them to drive awareness, trial, and conversion at point of sale.

It's really, really important as I now start to talk through our data and our digital media capabilities. We can't see the customer experience instore isolated from what they experience online and our capabilities and the way we think about our capabilities based on that data and insight and how do we make sure we are really consistent online with what the activity we are serving to our customers but also instore. So it's really, really important as I now move through our other capabilities not to think about shopper marketing as separate from our digital capability. We must make sure we bring those capabilities together.

I'm going to move on from shopper marketing now. We will continue to look at how we modernise and improve our shopper marketing capabilities in the years to come. However, the most significant growth is likely to come from our innovation in data and in the digital media space. I'll now talk you through how we've innovated to win in data. We offer a wide range of data and insight services to our clients but I'm going to focus in on our flagship data offering, which is the Sainsbury's Insight Platform.

We successfully launched Sainsbury's Insight Platform last year to our FMCG client base and we are really, really excited. We're building a version for Argos and the general merchandise supplier base and that will be out hopefully over the coming year.

What is it? Sainsbury's Insights Platform is an easy to use and self-serve platform that allows clients – and when I talk about clients that's the Sainsbury's FMCG supply base and in future the Argo supply base and colleagues to understand customer behaviour at product, brand, and category level at their fingertips. Clients pay for a license that gives them access for a minimum of a year and in some cases two years.

The platform has been a resounding success with satisfaction levels extremely high at 84%. A few bits of verbatim feedback from clients at the bottom of this slide, our clients tell us that Sainsbury's Insight Platform is the best of its kind on the market. Here's a short video that I hope brings the platform alive.

[Video playing]

A real toe tapper of a track there actually, plenty of toe tapping in the room here. I hope you enjoyed that snapshot of the capability and you get a sense of the easy-to-use functionality. You don't need to be an analyst to use it, there's great power in its simplicity and usability. Customer insight at the fingertips of both our internal colleagues, FMCG clients, and in future our general merchandise clients.

So now moving onto our aspiration to win in digital. We have fantastic capabilities in the digital media space already and we've stepped changed these through investment in data and technology to create a digital media network. What does it mean? We allow brands to advertise on our owned sites in [sainsburys.co.uk](https://www.sainsburys.co.uk) and [argos.co.uk](https://www.argos.co.uk). Millions and millions of views from customers and visits every week, and through our off-site advertising capability, our digital trading platform, we serve and add on the wider web and on social platforms like Facebook based on our Nectar audiences, based on the actual buying behaviour of customers.

Let me show you why we're well placed and I'm going to detail each of these capabilities and how we've stepped changed the capability and really give you a sense of what it means in reality for our clients. So why are we well placed? Mark spoke about this earlier. Retailers with an online presence and a first party data asset can become significant digital media players.

We are well placed to accelerate our growth into the growing digital media network market for three key reasons and they're really, really important. (1) Our first party data is customer commissioned and opted in and scaled. (2) Customers expect greater personalisation, relevant offers and advertising online. The data and technology we have allows that to be the case now. (3) Brands want great transparency on their advertising spend and the ability to optimise in real time, making the most of their investment. We have this capability and we're providing it to our clients' fingertips now.

These attributes combined are limited to retailers with an instore and an online presence and a scaled first party data asset that allows us to close the loop and actually understand whether a customer has gone on to buy the product following receiving the ad. This is - really is - the holy grail of marketing.

For all these reasons, we're well placed to unlock the growing digital media network. Let me show you how and why. So starting with our onsite media platform. In September last year we began the rollout of our onsite media platform, which is now live across Sainsburys.co.uk and Argos.co.uk. And what does this mean? It means we have significantly step changed our offering.

The platform allows suppliers to target and measure their onsite media advertising in real time. Personalised media is surfaced to site based on customer relevancy. We've moved away from a fixed tenancy advertising model to a cost per click model. Let me explain what that means. Suppliers now only pay when a customer views or clicks on a media as opposed to a fixed cost for the duration of their advertising campaign. It's just much smarter.

The platform is self-service. So our brands and our clients can log in, they get complete visibility and control, they can built their campaigns and execute to our sites. Just to give you a sense of how far we've moved. Going back probably about 18 months ago, it would take us about 12 weeks to get a campaign live on a site. We can do that now in 30 minutes. And once the campaign is live, the performance metrics are back in the platform within about six hours.

That gives our clients, the brands that are using us every day, real time campaign analysis, full transparency on their investment. Insights across impression levels, the number of ads delivered, conversions, who's gone on to buy. How many conversions have gone on to buy a product? And return on advertising spend. What has their investment actually returned? In general brands see returns of three to four times on their investment, which is above the market. A combination of our data and investments in technology allow that to be the case now.

And as if we planned it - which we didn't actually - we won *The Grocer* Gold Award for Technology Initiative of the Year last week for this capability, our onsite media platform. We're really, really proud of this award and it was led by one of our colleagues, Alice Hawcroft who lives our values as a business and in this case absolutely owns taking this fantastic capability to market over the last 12 months.

So who better to take you through the demo than Alice. I'm going to hand over to Alice now. So over to you Alice.

Alice Hawcroft
Digital Media Director, Nectar360

Thanks Amir. High, I'm Alice Hawcroft, Digital Media Director at Nectar360. It's my job to make sure that we have innovative digital media capabilities that meet our brands and our clients' need by returning strong return on advertising spend whilst also maintaining a customer relevant experience. Today I'm going to give you a demo of our e-commerce media platform to just show you how simple, quick and easy it is to set up a campaign now.

Just in case anything goes wrong, like it did to Facebook, we do have a video waiting in the wings. So please bear with us if any technical issues. For the purpose of today and especially for you, I'm going to focus on featuring this Kylie Minogue Cava to the top of the search results. I'm hoping I'm going to be so lucky, lucky and that nothing is going to go wrong.

The reason that it's so important for us to spotlight the products into these top three placements, is that we know on average, 30% of the total clicks that come from a page, come from these three placements. That means our brands are going to get the most return on their advertising spend.

Now into the platform. As you can see and as Amir mentioned, we've got loads of different options within the platform for advertising but for the purpose of today I'm going to focus on search. Next, I'm going to enter my campaign name.

This comes through on our reporting - sorry I've got an issue with my keyboard. We'll try and move through. Can we switch to the video please? Sorry about this.

So as I mentioned before, we're going to spotlight today the Kylie Minogue Cava. We're going to push it to the top of our search results and make sure that we get that in front of our customers' eyeballs. In terms of the platform, not only do we have the capability within there to give our brands the option to target. We also have an inbuilt relevancy layer.

This means that through machine learning the platform understands more about our customer behaviour and it will surface a product to the customers that it knows it's going to go on to click, buy and convert. That means that our brands are not wasting any of their money in terms of their advertising spend. That's why we can really deliver this strong customer and brand proposition.

As I mentioned, we're going to flip into the platform in a few seconds. We're going to look at the different options that we've got there and for the purpose of today, as I said, focus on search. Seamlessly, hopefully, picking up from where I left off. We're going to put the campaign name in there. This is for reporting and invoicing.

Next, we're going to select a time period for the campaign to run. It could be a day, it could be a week, it could be a year. Or it could also be always on. This is where a campaign will continuously run until the funds associated with it run out.

Next, we're going to go on to select a wallet. What a wallet does is it's basically a receptacle for the money that the brand wants to spend and then a catalogue. In this instance Sainsbury's but as you can see we have Argos in there and we also have the capability to expand this out into Habitat and TU.

Within the product section we're going to search for our product. As soon as we enter the first three letters of the name, or the first three numbers in the product code, it will start to appear. We also have a stock flag there. That means that we're indicating to our brands the products that are in stock and available. We only surface advertisement to site where a product is in stock and it is ranged to a customer store from which they can get the product deliver. Again to maximise the return on investment.

I'm going to add the search term in, which is Cava. But this could be multiple terms. And go into our spend strategy. This could be a total spend cap or it could be always on. We're going to put 78p in here because that's the average that we see from a search perspective. What we recommend is that our brands look at the different amounts and play accordingly.

Think of this as like an eBay type model. So it's where we do an auction and our brands will only pay one increment above what they need to win the bid. That, when combined with the relevancy piece that I touched on before, is super important about getting the products in front of our customers. Then we have purchase order and skipping through into the review of the campaign.

Here you can see all of the different details, which you can go over to check, make sure it's correct. Once you click launch then it goes into an approval queue, which my team then check through. The reason we do that is to make sure that we don't break any rules and that we have all of the necessary information there. So, for example, for those celebrity wine aficionados, Kylie Minogue Cava cannot compete on Graham Norton wines.

When we click okay here, what would happen is it would go into the approval queue. But we've sped this up for you. If we click refresh, as if by magic, you will now see that that Kylie Minogue Cava is at the top. This is all in real time, there is no trickery, even though we've switched over to video. That is how quick it is to get a campaign live.

Not only that, cutting down of those lead times, as Amir mentioned, from 12 weeks to as little as 30 minutes or quicker, as I've shown you, we also have a wealth of information in the platform that our brands can use. What we're going to do now is we're going to jump back into the platform and I'm going to show you a real-life example from one of our brands of their dashboards.

Here you can see a dashboard from our brand from this week. Where they've got a really strong return on advertising spend. They're using the platform really, really well. This is super useful for actually putting in front of our business leaders and providing a really quick snapshot. Now we've jumped into a page where you can see the detailed reporting. We cut this at a campaign, a product, a search term or a historic measure.

As you can see, we've got lots of metrics across the top, as Amir mentioned, to put the power in the hands of our brands. Here they'll be able to optimise campaigns in flight, provide post-campaign reporting or even look at end of year budgeting. Despite the technical problems, hopefully you saw it is quick and easy if you've got a working keyboard. I'm now going to pass over to Amir to take you on to the next section.

Amir Rasekh
Director of Client Services, Nectar360

Thank you, Alice. Always have a Plan B, which we worked on. So thank you, Alice. Hopefully it still gave you a sense of how fantastic the capability is. So now I wanted to move the conversation on to our offsite advertising capability. We have built and launched our digital trading platform this year. It's been a busy 12 to 18 months.

What is it? It is our proprietary offsite advertising offering which allows brands to engage customers across the wider web and social platforms, based on Nectar audiences, as I've touched on a few times. We provide this capability as a managed service. What does that mean? Currently we're running this platform on behalf of our clients. But in future we are moving to a self-service provision which will be offered to brands and agencies, similar to our onsite media capability that Alice has just taken you through.

How does it work? In a safe and compliant way, we build customer audiences based on Nectar data such as heavy coffee drinkers, or in the example I'm about to use, audiences of customers who buy detergents, or show a propensity to do so. We make these audiences available to brands in our platform and from this platform we serve targeted advertising, based on actual buying behaviour on the wider web and social platforms.

Importantly, through this same platform, we can optimise the advertising, diving up and down depending on how customers are engaging. And finally, we measure the advertising. What has it actually delivered?

So what does this mean in practice? Here is an example. It's actually a campaign that we ran for Persil. We selected audiences. I've picked four here. Four audience examples ranging - and each of the - Audience 1 is existing Persil customers, Audience 2 is customers who are loyal to the category, Audience 3 is customers who show a propensity to buy and Audience 4 is customers who have lapsed from the brand.

The advertising campaign is then delivered to these customers, these audiences, on the wider web, on paid for media space on hundreds and thousands of relevant websites. And then we optimise to drive conversion to purchase in our stores and via Sainsburys.co.uk.

I hear you saying so what? And the so what is, customers are engaging with greater advertising relevance online. Providing real cut-through for brands in what is becoming a congested digital space. And as a result, because of our data, because of our approach, our brands, our clients that work with us every day, are seeing great results from this capability. For Persil 6 million impressions, that's ads delivered to hundreds of thousands of households, with a conversion of above 7% and a return of £1.25.

As we look to the future, we want to bring these capabilities together in one interface, allowing brands and agencies to engage customers through a single platform and throughout was often referred to as the marketing funnel. That's the only marketing jargon I think I've used through this section. I've used it for illustration purposes really on the slide. Just so I can talk through what our aspiration is.

It's really overly simplistic. As customers do not necessarily engage in this linear way any longer - - in fact, it's much more dynamic and in the moment - the key is to catch that customer moment through personalisation, which we can do because our data's based on actually purchasing behaviour.

The basic premise for any brand marketer now is to engage with that customer in that moment. And we can do that, be it awareness driving on the wider web, at the top of the funnel here, at the top of the marketing funnel here, our digital trading platform does that now. For a conversion at point of sale, sainsburys.co.uk or argos.co.uk, millions of visits every week. We have our onsite media platform that you've seen this afternoon. Driving long-term loyalty for personalised offers in our Nectar app, which Alex and Alex spoke to. We already have all this capability, a digital media platform powered by data. A digital media platform that allows brands to engage with customers just at that right moment.

Before we get to what it means all commercially, I did want to come back to this slide, and I hope you excuse the repetition, actually. We are well placed to accelerate our growth into the growing digital media network market for three key reasons. Our first party data is customer permissioned and opted in and scaled. Number two, customers expect greater personalisation. Our data and technology allow that to be the case now. Number three, brands want greater transparency on their advertising spend, and the ability to optimise in real time. We provide that capability to our clients' fingertips now.

This means our growth plans for the coming years are set on really strong foundations. We have mobilised our key initiatives to win in data and digital already, as hopefully you've heard. As our data and digital capabilities mature, they will make up a greater proportion of our gross billings, as you can see to the left of this slide. Just to be clear on what I mean by gross billings, for loyalty services, which is the blue bar at the bottom there, that is Nectar 360, billing our Nectar partners for points issued and other program support fees. This does include a large proportion for Sainsbury's points issuance.

Moving up the bars, for shopper marketing, data and insight and digital media, this is billing our clients, our client base, for services delivered across these service types. We expect to grow our billings by 25% plus in the coming years, driven predominantly by our data and digital capability, growing to 10% and 30% respectively, as you can see on this chart. As a result, by '25/'26, our profits will grow by an additional £60 million to £70 million, with the key driver being significant and incremental growth in billings from our digital media network. A digital media network powered by our data, connecting customers with their favourite brands online, in that moment.

That brings us to the break ahead of Q&A. For those on webcast, please submit any last questions. I really hope you found this afternoon's session interesting, informative and exciting. As a team, hopefully, you can see the passion, but as a team, we live and breathe everything that you've heard, every day, from a fantastic customer brand in Purple Nectar, through to the other side of the Nectar value equation, our growing Nectar 360 business. All of which is only made possible by putting our customers and our clients at the centre of our thinking, and delivered fantastically by our team, many of whom are on the call this afternoon.

We're going to take a 10-minute break. Actually, I think we're going to come back, we're going to come back at 2:35. At 2:35, you can come back, we're going to hold our Q&A then. Hopefully, you've got plenty of questions for us, and thank you again.

Question and Answer Session

James Collins
Director of Investor Relations

Welcome back, everybody, and thank you for joining us again. I hope you've enjoyed the presentation so far. What we're now going to do is run through the questions. Those will come through in two forms. Firstly, thank you for all the written questions that you've submitted. We've collated these, and we will ask as many of these as we can to the panel.

Second, there is also a live element of Q&A, for those who have dialled in on Teams. Just to be clear on how that works, for those who have dialled in on Teams and who would like to ask a question, please use the raise your hand button, which hopefully you are all familiar

with on Teams, and when we're ready to take your question, we will state your name, at which point you need to unmute and also turn your camera on.

We have had a really good amount of questions all coming in at the last minute, inevitably. We have a lot to cover, so I would ask, for those asking questions on Teams, in the first instance, you only ask one question, and we will see how many we manage to get through. If you do have further questions after that, if you leave your hand raised, if we have time, we will come back to any subsequent questions that you may have. Equally, if there are any questions that we aren't able to get around to today, then we will follow up with responses after the event.

Going through some of the questions that we've had through from the web submissions first, I think we'll deal with some of the grittier ones first, and some of the numbers-based ones.

Firstly, we've had a question on inevitably, the financials chart. We showed gross billings of about £350 million, we're saying that will grow 25%, so that's roughly £90 million over the next five years, and that's giving incremental profit that we showed of £60 million to £70 million. The question is that seems like an incredibly high margin. Is that the sort of margin that we make across the Nectar business?

Mark Given

Starting with a nice easy one. Amir, do you want to take that?

Amir Rasekh

Sure, thank you, Mark. Crikey, that's a big question to open with. Let me just think that through. Clearly, in comparison to our retail margins, our Nectar 360 margins are much more favourable. Very favourable, in fact. There is a spectrum to our margin throughout our services and channels, but our data and digital channels do have high margin. That's because we've got really strong foundations, we own the capabilities, and we've made investments already. As I've already talked to in the last section, our increments of growth that we expect to come through, we expect to come through our data innovation and our digital media network. Not only is our revenue growing, its growing in an area that is very high margin.

James Collins

Great, thank you. We had a question about the competitive advantage that Nectar gives us, gives Sainsbury's, versus other retailers. What's unique to us, where are we unlocking, perhaps, profit opportunity better than competitors?

Mark Given

Yes, sure, I'll take that one. I think we covered some of this in the session today. I think the coalition model is entirely unique and gives us scale. We've talked lots and lots about the size of the first-party data set, scale does matter in this area, and we've got a really mature client-server and partnership model. When you start to talk to British Airways and to Esso, some of the capability we have to build win-win solutions and partnerships, we think we're pretty good at.

As I talked, I think it's - we've been pretty fast out of the blocks in some of the tech elements. We've got some of the Sainsbury's tech colleagues on the call today, and these guys are the Spartans. We really need to - these are really complex algorithms, and some of the

integration. We think we're a good bit ahead on that. To your question, I guess some competitors have some of that, but certainly not all. We're certainly not standing still in this area, as well.

James Collins

Great, thanks, Mark. We talked about Nectar Prices today, so we had the question, somewhat inevitably, I think, what was the difference between Nectar Prices and Tesco Clubcard prices? It seems perhaps, the question is, is it a thinner program, not available to so many customers, why have we done that, and what's the plan for Nectar Prices?

Mark Given

Alex, do you want to take that?

Alex Naisby

Yes, of course, I'd love to answer that one. It's a really obvious thing to try and draw comparisons to the two prices. If you take Tesco Clubcard prices, clearly, it's a mass promotion, thinking about temporary price reductions, which are clearly unlocked through Clubcard membership. We've taken a very different approach to our starting point on prices, thinking about personalisation and really adding value to our digital proposition as a result of that.

As we mentioned, we are giving 8.2 million customers a set of up to 10 individualised prices on products. Those products aren't limited just to a handful of SKUs; they're looking at around 27,000 SKUs every time we run the algorithm. Highly personalised, and clearly, right in line with our strategy relating to digitalisation of the program. A really unique proposition. Clearly, in the future, we'll roll that out to other channels beyond SmartShop.

Mark Given

Great, thanks, Alex. I guess the only thing I'd add, James, is we have first taken the grounds that we believe in personalisation, and on something like Nectar Prices, even last week, we were delivered 95 million personalised customer offers, just to give you a sense of the scale of the industrialisation of some of these programs.

James Collins

Great, thank you. Another question on Nectar, so what's the main difference in terms of the way Nectar is run, now that Sainsbury's owns the business, which we have for about three years, versus when Sainsbury's was basically the largest player within the consortium behind Nectar?

Mark Given

Yes, sure. I've been around long enough to have worked with Aimia and two models, and its night and day in terms of how that feels. So with ownership of the programme, we own the customer experience, we can work with the partners to improve that. With all the investment behind the digitisation we'll be able to drive that at a much greater scale. I think when you talk to some of the partners, actually it's Nectar backed by the Sainsbury's relationship and that's definitely added to it.

Look, as I said earlier, hugely proud of the investment we've made, rebuilding some of the core systems, we've relaunched the brand, the ability to take it into Argos in our own time, in our own speed. So yes, look, it is honestly night and day and look, I think we're able to accelerate in this space, given we're able to drive the ownership of that coalition.

James Collins

Great, thank you and a question on ESG. So I think we've outlined, we outlined in the presentation, where we've used Nectar to incentivise customers on fruit and veg with the Big Fruit and Veg Challenge. So the question is whether there's more of a role for Nectar in terms of trying to help customers with some of their goals with ESG and also help perhaps deliver our Plan For Better as well.

Mark Given

Alex, do you want to take that?

Alex Jardine

Yes, sure, so let me break that one down. I think one of the things that we hopefully have picked up from this afternoon is that fundamentally customers do chase Nectar points. So they're always looking for more opportunities to earn points and expand and build their balances and boost their balances. I think that's a critical point and obviously that's got a role to play in driving sales into the food business, as we've touched on. But there's definitely a role there as well for Nectar as kind of a helper brand, helping nudge and encourage customers to make good choices.

I think in the question, James, you touched on the Great Big Fruit and Veg Challenge. Clearly that's a great example of us using prices and the gamified experience in the app to encourage and nudge customers to pop an extra piece of fruit and veg into their baskets. I think interestingly, just to bring this to life, when we launched that challenge, I was in-store and you could actually see some customers going around looking for those veggies and that piece of fruit to put into their basket. So we know this stuff works and we can see that in the response that we get to it.

So the short answer is absolutely, yes, I think we can definitely see that Nectar is an incentive and it's something that we can use more broadly across our Plan For Better strategy and we're working through just what that looks like.

James Collins

Great, okay, thanks, Alex. So we're now going to take another bold step in terms of technology and see whether we can take the first question on Teams, which should be from Andrew Gwynn at Exane. Andrew, if you can go ahead.

Andrew Gwynn, Exane BNP Paribas

Hi there, apologies, I think I missed the first part of the Q&A, so hopefully you can hear me. Obviously Nectar is traditionally a loyalty card scheme and the shift here is in some respects moving towards personalised price and consequently, may be giving some of the least loyal customers the biggest discount. So I'm just wondering how you can marry that up. I appreciate obviously that's where the best return is in terms of the price investment, but maybe is there a risk of alienating perhaps even some of your best customers?

Then the second question I had, apologies if that's already been asked, but second question I had was just on the data in the rest of the business. Traditionally Sainsbury's has used some of its Nectar card data to help move, I suppose, basic things like ranging. I'm just wondering how that more traditional use of Nectar has evolved? Thank you.

Mark Given

Thank you, it's good to hear directly from some of the audience versus down the camera. On your first point, you're right in some ways, we think of this now as a digital engagement scheme versus our historical card-based programme. Of course, there are still customers who use it in that way, but the guys talked about how we want that shifted to regular digital engagement and we think about that bit of real estate on your phone and the share for attention in that space.

To your point on personalisation, actually it isn't about low loyal versus high loyal. We showed relatively extreme examples today, the guys talked about current spend and almost lifetime spend. So a lower loyal customer may get more value offers, but actually there is more loyalty and headroom with some of our existing customers. We talked about our innovation strategy, they will typically get more trade up, perhaps a bit more Taste the Difference and some of the more discovery offers and innovations. So it's not necessarily true that the overall investment is ultimately that the machines work and where there's headroom in how we work. All of our customers will hopefully get something that's relevant to them, depending on the mission or the type of shop that they want to work through as well.

Then to your second point, we didn't touch on it hugely actually, because we wanted to, I guess, talk about the more favourable stuff. But it's almost impossible to overstate how integrated Nectar data is into our commercial operations, how we run our business. So micro/macro ranging, even store location, promotional analysis, how we've shown the halo investment of the current price investment at the centre of plate. So those are just some examples. And I think the team talked about the Sainsbury's insights platform, so the category teams and the buyers are using the same interface as suppliers and a common language, to make sure they've got that at their fingertips every day.

James Collins

Great, thanks, Andrew. Then going back to another question that came through on the web, so it's a question around scale. So the question is, is Nectar and the use of loyalty data an area where scale matters? So is the data more valuable the more you have of it? So is it the overall number of customers? Is it the loyalty of those customers? And effectively, how complete a picture do you get of their spend? So how do the numbers stack up, I think it is broadly.

Mark Given

Alex?

Alex Jardine

Yes, do you want me to pick that one up. I think we were clear in the presentation that scale is key. There's a couple of elements to that, so we talked a lot about Nectar prices and the smarts that sits behind that. Clearly there's a scale of data there, there's a depth and breadth of data that really makes that meaningful and brings that to life. So that's one element.

But I think the second element that we touched on quite a lot as well, is that digital scale that we've got to be able to have truly one-to-one personalised conversations with our customers. So that ability to actually understand how they're shopping and then personalise our content, our offers, our service and experience, to be able to adapt and serve that to our customers in relatively real-time. That's really the key and that again is where our digital scale comes through. So absolutely is the answer, I think both in terms of driving the data and the analytics and the value we can get from that, but also then actually the experience that we can offer to customers.

James Collins

Great, thanks and then going back to Teams again, I think Sreedhar Mahamkali from UBS is on the call. Sreedhar, if you'd like to ask your questions, please go ahead.

Sreedhar Mahamkali, UBS

Hi, thanks, everybody, thanks for taking my questions, very helpful presentation. Maybe just a big picture in terms of the way you talked about the media potential and things like that and I'm just going to hop on back for a second to the total digital media spend that you talked about right at the beginning, £3 billion to £4 billion on the digital media FMCG brands. How do you think about how much of that should be in the supermarket channel? I'm assuming there's very little of it at the moment.

Then within that, how should we think about your share of that? Again going back to another comment you made, clearly that should be substantially bigger than your food market share because some of the things that you're doing are very unique. I guess Tesco is up there as well. So that's the first one.

Very short follow-up on the second one, in terms of where retail media itself sits within the organisation. Clearly with the suppliers, you've already got the buying teams negotiating trade spend and trade promo. Will that mean there is another team that is talking to the suppliers about marketing spend? How do the incentives align? Those are the two questions, thank you.

Mark Given

Great, I might take the first one and maybe, Amir, you take the second one. So if you look at, as you said, digital marketing investment between £3 billion and growing to £4.5 billion and you look at some of the splits, we showed that the percentages going through retailer media we do expect to grow to about 26%, because it's demonstrably driven a better return on investment than those in the programmable web. So that will be the first bar.

Of that, clearly, we're very well positioned. We've got a large scale in Sainsbury's, we've got a very good model that we demoed in terms of showing return on investment and of course in the GM&C business, Argos is the third largest provider in that space. And clearly in that area, because you own the platform, you've invested in the online delivery, that's where the higher margin is because you're the media provider.

In the rest of the web, imagine let's take a petfood manufacturer who wants to advertise into Google and Facebook, actually you're a smaller slice, you're providing data. So you're giving them a data slice of these are our customers who buy into the category, don't buy into the category or are potentials. So you get a smaller slice of that, but of course it's a very, very big market part of the pie. I'd say that one's still new for us, we're still six or nine months in,

so that's the one we're feeling our way into and just getting a range of what's that potential. You'd see Amazon probably delivering quite good growth in that area.

So I hope that gives you a shape of how we see the two, but certainly the direction of travel is we think, talking to other players, there's upside in retail media, because we've got more and more eyeballs coming as e-commerce across all of our brands' digitisers. So I hope I've answered that one. I guess, Amir, it was about the relationship with the suppliers.

Amir Rasekh

Yes, so the second part of the question was your question around suppliers working with the trading teams, the commercial teams and actually what their relationship is with Nectar360, how does that work from a data and media perspective. So absolutely, the conversations are separate and that's how we operate. The supplier base will be having their commercial discussions with the buyers and we operate entirely separate from that and our teams, our client teams within Nectar360 will be talking directly to those brands about service provisions across our data, our insight and our media portfolio. A lot of what we touched on earlier on. And it's really important that those two conversations are separate.

Where we do try to bring it together is we have members of our team integrated into the category teams and that really allows us to understand what is the category trying to achieve, what are the objectives and the roles of the brands and how do we marry those things together. We typically marry together through that insight into the behaviour and then activate it through our marketing channels.

Mark Given

Thanks, Amir, and I guess the only thing I better add is we think that model works because we think the brand should be investing in our channels based on the return on investment and how it stacks up against all the elements of the national and retailer marketing plan, not necessarily linked to a specific trade deal. So I think having that distinction but then, as Amir says, very joined up within our internal category teams on the overall plan for the year probably works best.

James Collins

Great, thank you and we'll keep swapping around, so we'll go to another web question. So this one, I think it slightly overlaps with a question from earlier on, but just on the digital solutions that we're offering, can you just talk about how that basically gives us an edge versus competitors?

Mark Given

Amir, do you want to have a go at that one?

Amir Rasekh

Yes, sure, hello again. So how does it give an edge? I guess our competitor is quite deep now, so you're talking about standard retailers, actually in a lot of cases there's a number of new tech providers in the market. Why does it give us edge in the retail market? It's because of our data asset and the technology that we've brought together. We can be super, super personalised on our own site, so that's [sainsburys.co.uk](https://www.sainsburys.co.uk) which use exactly the same data to drive sales on the wider web and social platforms back into our stores and online.

And that makes a significant difference, we can really work with the brands to drive benefit back into Sainsbury's.

James Collins

That's great, thanks, Amir. I think now we'll take a question from James Anstead at Barclays and just a reminder for everyone, if you can turn on your cameras when you come through with Teams. We haven't got out very much so it's quite nice to see some different faces outside of this room.

James Anstead, Barclays

Yes, I'm not sure my face will be the most exciting one of the afternoon, but I'll get my bonus question for asking via Teams, but two very quick ones. Firstly, the profit opportunity of £60 million or £70 million a year over the next four years, I just wanted to check, is essentially all of that accruing to the Group? Or is some of that essentially at the expense of Sainsbury's as a customer? So does all of that basically hit the Group bottom line?

Then secondly and I think you've kind of touched on it, but is there a tension at all between advertisers' willingness to spend and the most appropriate products to put in front of customers? Interested in any elaboration on that.

Mark Given

Yes, sure. So I think on your first point, yes, we showed the £60 million/£70 million number, which is a Group number. We talked about the inflection in profits, we wanted to go online with a new strategy, we don't necessarily give long-term guidance. So that will be within the current P&L that we're forecasting. We think about, as brands deliver, clearly, we've got some choices, do we want to invest that into the food proposition, or will that flow to the bottom line? I guess we want to just give a bit more visibility on that slice of what the future Group line will be.

On your second point, actually it's a really good point and if you even think of a simple Google search as well as ours, you're absolutely balancing the price of the auction versus relevancy. If you push it too far one way, people are finding things that are not relevant and your overall customer experience will be compromised. If you push it too much the other way, you're perhaps missing some opportunity. So that's almost the alchemy of those type of bits and for the avoidance of doubt, the number 1 job of a grocery online platform is to give everyone a brilliant shopping experience that they'll come back to. Actually, advertising can do part of that as well as forgotten favourites lists and relevancies and recipes. It's about building that into the organic shopping journey as well.

James Collins

Then James, I think just on that, I think if I'm right, on that £60 million to £70 million question, I think part of what you're asking is whether all of that £60 million to £70 million actually accrues to the Group P&L, as opposed to some of it being lost in internal recharging. So i.e. part of it we recharge to Sainsbury's, to which the answer is no. So basically, all of that takes account of the recharging to Sainsbury's, so that is actually what Nectar delivers to the Group net of what is recharged to Sainsbury's. So all of that is incremental.

James Anstead, Barclays

Okay, that's a much more succinct way of asking my question. Yes, thank you, that's clear.

James Collins

Thank you, great and looking next, just a question around some of the technology that sits behind this. Just a question, do we partner with any technology providers for the B2B offerings? Or are they all developed in-house?

Mark Given

Amir?

Amir Rasekh

Yes, hello again. So from a B2B perspective, yes, we partner, our onsite media platform is a partnership with CitrusAd, which is a significant player and we've been working with over the last 18 months. We also have relationships, as you would expect, through our digital trading platform, so that's offsite with the likes of Google and Facebook.

Mark Given

Yes, I think that's spot on. So sometimes partners, sometimes we build. We'd see it as a mix across that space, but even when you partner, actually you want to be really pushing the backlog. You want to be really engaging with those media partners and really creating the products and influencing that as well.

James Collins

Great, and another question from the web, just again on Nectar prices. So the question is, how personalised is it and where are we on the journey towards completely personalised prices and promotions? And where does the money come from that we're putting behind this? So if we're giving people prices, is that coming out of general marketing spend? Is it coming out of pricing investment that you might make more generally otherwise?

Mark Given

Sure, Alex, do you want to talk to the first bit and I can talk to the second?

Alex Jardine

Shall I take the first point and then I'll come back to you for the second one. Sure, so look, as I touched on in the session and I think we've already raised today, across our offers and our prices we're making 95 million personalised decisions for customers each week. So that gives you a sense of the level of personalisation that we've got. So every customer gets an entirely unique set of prices on the 10 products that come through to them each week. So the answer is yes, it's very personalised. Clearly there's more opportunity in the future.

We're always looking at tweaking the algorithm, there's always extra things that we can do. This is our first view of it in the market, so we're already excitedly looking at how it's landing. But there'll be more we can do with it, but yes, it's incredibly personalised and as I touched on in my session, it is something that's taken us a long time to build and hone and it's something that we really do feel differentiates us because of that distinct level of personalisation.

Mark Given

I think in the second part of the question, it's probably worth a bit of context. We've said value and value perception is a key part of the strategy, so for the avoidance of doubt, base prices on the shelves is really, really important and we've put huge focus on Sainsbury's Quality Aldi Price Match, which we're very pleased with and is working well. And then price lock which shows stability in our brands. This sits, I think, on top and is probably the longer-term play alongside those.

So we're a couple of weeks in at the minute, that's a marketing investment, actually based on our knowledge of personalisation, we're pretty confident that'll be a good return on investment. And then over time, that is something we'd want to offer to the branded manufacturers, but actually early days in that. So I hope that gives a bit of context on how we think about it across the total proposition.

James Collins

Thanks, Mark. Then going back to Teams, if we can take the next question from Rob Joyce at Goldman Sachs.

Rob Joyce, Goldman Sachs

Hi, good afternoon, thanks for taking the question, I'm going to sneak two in as well. Firstly, just in terms of how incremental this spend is, are you confident this is incremental to what you might consider traditional trade spend? Or it is just replacing what might already have been spent by the FMCG brands?

The second one, sorry the slides, I couldn't quite get the maths precisely, but it looks like the retail media income sort of stuff was about £70 million last year in terms of revenue. It looks to be about 2% of your online sales last year. Is there an opportunity to grow that percentage? Is that really what's driving the growth here? I think Amazon probably over 5% of GMV on a similar number. Apologies if the maths was off on that, I couldn't quite catch the slides.

James Collins

Yes, so the first question there was just on how much of this is incremental over and above what has been spent before?

Mark Given

Sorry, I was intent on listening to your second question. Rob, an endless debate within shopper marketing. I would say we'd have good confidence that it is incremental. We're actually very joined up with the category teams, thinking about the total income from a particular supplier and getting a good line of sight into that. I'd say I had even more confidence in the future, because we're increasingly pushing into not just the shopper marketing business but giving some of the sophistication into the national marketing plans and budgets, because we're now actually, as Amir said, looking at top of the funnel as well as the bottom - so, we build up a much more strategic and different relationship than just the team that manages the account team. Certainly, if you look to the US that's the area that's really exploded.

They obviously are going after Walmart, some of the big national advertising budgets with bigger FMCGs so I think that's a good direction of travel, but we'd have the suitable checks and balances in place customer by customer. Look, for us we're in the business - the

FMCGs have many opportunities to invest or spend, so we're in the business of getting a disproportionate amount of that into Sainsbury's.

On your second question, I'm not sure I recognise that £70 million as a number, actually. If it's a number from stat accounts, stat accounts will only ever show part of that overall picture.

Rob Joyce, Goldman Sachs

Sorry, I just literally - sorry, I saw the slide quite briefly, but I thought it was about the blue bit was about 20% of the £350 million bar. The light blue bit, which I think you said was retail media spend. I haven't got - apologies if I've missed a slide. They're a little blurry on my screen, so we can follow up afterwards on that as well.

Mark Givens

Yes. Yes, absolutely. Look, drop us through a note and we can go through it in a little bit of detail.

James Collins

Yes, and just because - so, the slides, you'll be able to download the slides from the deck immediately after the presentation but we can follow up on that afterwards, Rob.

Rob Joyce, Goldman Sachs

Thank you.

Mark Givens

Thanks, Rob.

James Collins

So next, looking at the - so, a question around the self-serve platform where suppliers can tailor range, set promotions, these kinds of things, is that only available for the online shop or is that also something the suppliers can use for stores as well?

Amir Rasekh

Yes, so I think we're talking the Sainsbury's Insight Platform and that's not created to set a range or to set a promotion. It's actually to use the data and the insight to be able to inform what a range of product could look like or a promotional strategy. It is both online and in store.

Mark Givens

Yes, I think two systems we showed today. One is our Sainsbury's Insight Platform, which as Amir said looks at total insight and total spend across the business. Alice then demoed the online advertising platform which is specific to online. We would see that rolling into Argos. The instore campaigns, as you imagine, lead times are planned a little differently.

James Collins

Okay, great. So, just a reminder, if your hand is still up, we may well come back to you for more questions. So, if your hand is still up, then make sure that it's meant to be and do put your hand up if you have any more questions.

Second, coming back to the web again, how has customer behaviour changed since we've seen more customers switching across to the Nectar app for using - for their shopping as we've switched numbers over versus the card?

Mark Givens

Sure, Alex do you want to take that?

Alex Naisby:

Yes, absolutely. So, it's doing exactly what we hoped it would do. So, I think in the presentation I talked about the historical behaviour of customers and their relationship with Nectar being swiping their card at the end of the shop and what we want to do is move that consideration much earlier in the thought process when you're doing a shop.

Certainly, we see as a result of the offers and now the price - the point offers and now the prices that we see in the app, the customers are spending time having a look through the offers, planning their shop more fully in advance, which has got definite benefits. That's probably one of the key things that's driving the return on our points investment, particularly around points. So yes, so a huge pivot away from being very passive to being very active in their relationship with Nectar and therefore Sainsbury's.

James Collins

Great, thanks Alex. The next question, so back onto Teams is Nick Coulter from Citi. Please go ahead, Nick.

Nick Coulter, Citi

Great, I think I'm unmuted. Hello. Thank you for presenting today. So, two quick ones if I may. Apologies for going back to the numbers, but could you give an indication of what the profitability is on the existing £350 million of billings please, or is that profitability suppressed by the platform cost at the moment and then perhaps that might be leveraged as the fees grow?

Then secondly, I think I think I saw Amazon on one of the slides. Any colour you could share there would be great. Thank you.

Mark Givens

Yes, so I think thank you for the questions. On the first one what we've shared is the future growth that we have which is £60 million, £70 million. We don't actually disclose the total profitability across the £350 million. I think Amir talked about the blend of margin across the products.

Actually, the Nectar loyalty scheme is still very profitable, but to the lower end of that, some of the digital and data media towards the higher end of that, and you can imagine it can get complicated in terms of allocation costs and how you work thorough that. So, we're talking total billings and then what we think the incremental profit has gone through that as well.

In terms of - and I try to use this to talk about us, less so competitors, but there's no question Amazon advertising services are a huge player in this market. They would I guess have set the benchmark in self-serve and repeatability. You'd expect that from Amazon. I guess we can give a bit more of a rounded approach, and we would have data sets for the FMCGs like transactional data across the board that they wouldn't necessarily have, but in terms of size and scale they certainly would be one of the pioneers in this area. Look, you'll have seen that when you studied them.

Nick Coulter, Citi

So, but you work with them?

Amir Rasekh

Yep, so the slide you were referring to has an Amazon logo on the slide and that's because Amazon are one of our clients. We work with them because they supply Argos with hardware. So, we provide them a service like we would any other client.

Mark Givens

Yes, just like Google and Samsung when they get into these products.

Nick Coulter, Citi

Okay great, and just to come back on that first question, is the overall profit pot at the moment less than the £60 million or £70 million? Just to give us some frame of reference for the existing profitability would be helpful. Thank you.

Mark Givens

I'll defer to James on that one, I guess. That's what we're working to disclose.

James

Yes, that's a relatively easy one, Nick. It's more, and I'm not going to say how much more.

Nick Coulter, Citi

That's clears that up.

Mark Givens

It's like higher or lower.

James

Thank you.

Nick Coulter, Citi

I can continue, thank you.

James Collins

Thanks, Nick. We've got a question on - which is what customer shopping journeys do you see the greatest customer engagement in with a nudging via Nectar? So, where are customers most responding? In which channel, I guess? Is it in the convenience channel with impulse, is it online, where are we seeing people respond most to what we do with Nectar?

Mark Givens

Oh, it's a good question. I would say generally people are more engaged with Nectar when they're going for the bigger shop. Of course, it costs you more, you plan it more, you put a bit more thought in there and your basket size is typically higher. So, that's probably the area where you generally see the most Nectar engagement. However, I think that will change because I think Alex had a slide which showed how we'll integrate Nectar much deeper into the SmartShop and grocery online journey.

So, if you think of you're at a desktop planning your shop, it actually gives us a lot of real estate to integrate Nectar a lot more. So, I think that will necessarily evolve. Convenience where it's a one or two item fast in, fast out tends to be less, but that's where a SmartShop payment solution where your Nectar card is already in there because you just want to make it as low friction as possible in that channel.

James Collins

Great, thank you. Then just going back we can see Andrew Gwynn this time. So, that alone is worth a second question, Andrew.

Andrew Gwynn, Exane BNP Paribas

Yes. Yes, I'm not sure it was worth it, but a very, very quick follow up. Your former CEO referred to personalised prices as potentially the biggest opportunity. Is that still part of the thinking?

Mark Givens

Can you repeat that?

James Collins

Sorry Andrew, you're breaking up a little bit. Do you want to try again?

Andrew Gwynn, Exane BNP Paribas

Yes, sorry. So, your former CEO spoke to personalised prices as perhaps the biggest opportunity for the Group. Is that still part of the thinking?

James Collins

So, I think...

Mark Givens

I think I caught it.

James Collins

Yes, go on, go.

Mark Given:

I think it was your former CEO talked to personalised pricing. I think personalisation in general is a huge opportunity for our core business. Clearly, we've got our refreshed strategy since then and we're absolutely clear on Food First and the priorities, the Save to Invest and the priorities we've laid out.

I wouldn't necessarily narrow it down to personalised pricing. Think about it as we've got a range of tools. We've got points offers, we've got pricing offers, and we've got some engagement tools that the guys talked around today. It's about your ability to curate those for that particular customer, looking at the relevance, looking at their personal shop, the mission they're on, to get ultimately maximum loyalty from them in that period.

So, I think price is going to be a big part of that. It is a value conscious market, but I always want to see it in the context of the things that you can deliver for customers, because the slide we showed earlier, getting up three to four times ROI and points offers, in my experience that's pretty unheard of in CRM in a grocery channel. So, I think I'd see it in that context. Look, it is absolutely a bet that we would have in the future particularly in the core food business over time.

James Collins

Great, thanks Mark, and thanks Andrew.

Andrew Gwynn, Exane BNP Paribas

Thank you all.

James Collins

So, going back to another web question, so this is a good question. The question is, where do customers earn their points and where do customers spend their points? So, what are the relative proportions there? Linked to that, are customers now spending more points given the increased visibility they have of them on an app versus I guess the paper coupons?

Mark Givens

Anybody fancy a go? Shall I have a go?

Alex Naisby

Yes, I'll have a go at that one, no problem. We'll fight over it.

Alex Naisby

Yes, so I look I mean I think I touched on this earlier in the presentation. One of the joys of the coalition model is that customers can both earn and spend in a multitude of places down to what's really important for them. Clearly, we see customers with - Sainsbury's is probably the net beneficiary of the points flow, but that said, for some of our customers they really do like to spend it on some of the bigger brands that we're introducing.

So, even this year we introduced the ability for customers to be able to spend their points at Esso on their fuel top up. So, increasingly look for creative ways for customers to spend their points. Sorry, could you repeat the second part of the question?

Alex Jardine

I was just going to chip in. I think you touched on this in your slides, Alex, but ultimately our aspiration really is to ensure that customers are spending more of those points.

A healthy scheme is one where customers are incentivised to earn because they know that they've got a bonus or a redemption event where they can get some benefit from those points that they've worked towards. So, that absolutely is the aspiration for us, to get as many points in the ecosystem redeemed as possible so that then we get this virtual circle of customers then going out looking to earn more.

Alex Naisby

Yes, and even to add to that, last year we changed our breakage assumption. So, we're now assuming that customers will spend more of their points, or less points will break. By breakage I mean points will expire from customers and just be realised to us on our bottom line. So, we're really actively looking for customers to spend their points and drive value for them, and then ultimately for us.

James Collins

Great, thank you. I think we're going to go back to James Anstead whose hand is up for another question. Sorry James, go ahead.

James Anstead, Barclays

I'm sorry, I thought I put it down.

Mark Given

Legacy hand.

James Collins

Okay. Okay, fine. That's good. So, we can move on. So, looking at the web, it's currently failing me as well. So, looking at - here we go. So, looking at the growth plans for Nectar, how have you gained comfort over the growth plans that you're looking at and how achievable those are? So, what are the external reference points that you've taken?

Mark Given

Amir?

Amir Rasekh

Yep. So, you're probably sick to death of hearing this, but I think where we get some real comfort is the fact that we've just got this amazing data asset, a scaled data asset. We've already invested in the technology and those initiatives are now out in market. We did take some external advice, actually, and an external view.

The view back from the market is - sorry, from that external advisor - is we're absolutely holding our own in terms of performance currently and the tech roadmap and our direction of travel on our key initiatives is absolutely on trend and the area that we need to be moving in. So, really, really confident on the plan. We're seeing good growth throughout and we've really step changed the capabilities. So yes, very, very, very confident.

James Collins

Right, so again an element of jeopardy with this, but Nick Coulter, apparently your hand is still up. So, is that because you'd like another question? Please go ahead if you would.

Nick Coulter, Citi

Thank you, James. Thank you for taking the follow-up. I think it might be feeding back, so I'll speak slowly, but can I ask, philosophically, how do you think about the profit from these services? Is it funding to make the boat go faster, or is it a bona fide ancillary profit stream? Kroger initially went for the latter, and it didn't serve them well, so it would be interesting to get your thoughts. Thank you.

Mark Given

Yes. It's a good question. I think of these two as absolutely symbiotic. We've been very clear as part of our strategy, it's food business fully firing. That in some ways will bring more customers, more eyeballs, into our online platform and growth for our suppliers fuels the second part, and then you can monetise that, which gives you a chance to then make some profit that you can, as you say, invest back in the offer to improve competitiveness of one versus the other.

I think you've got to achieve the and, but if you were to push me, it is on the basis of a really firing core business that creates the opportunity for this, rather than going too far on the balance. I think we're very keen to maximise that opportunity, but I hope we showed today that Nectar is absolutely driving the core Food, and indeed the Brands That Deliver, engine, as well as, look, being bold in our ambition in the incremental profit stream space.

Nick Coulter, Citi

That's good to hear, thank you.

James Collins

Great. Thanks, Nick. So we don't have any more hands raised, and we've dealt with all of the questions that came through on the web. So I'm going to hand back over to Mark in a moment, but just to say we are aware that we've delivered a lot of content today. If you do have any more queries, then by all means, do follow up with us, or if there's anything that you think we haven't answered, then you know where we are for any more queries. So, Mark, over to you.

Mark Given

Yes, just to wrap up, firstly, a massive thank you for taking the time out to join us this afternoon. We set ourselves the objective of explaining what Nectar is, what we're doing in the B2C space and B2B space, giving you a chance to ask some questions. I'm hoping we've achieved that, if nothing else. Huge thank you to the team to help us prepare, and I think some Sainsbury's colleagues on the line, as well, so look, thanks for your engagement.

I hope it's been clear, and you'll obviously, I'm sure, give us feedback, and we'll see you at future sessions, so thank you very much indeed.

Operator

This presentation has now ended.

End