

Sainsburys: strategies for customer retention



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CHAPTER (1)

Abstract

My research paper basically seeks to understand the priorities of customer in Sainsbury of selection of products while shopping. And Sainsbury's efforts to work on their new products with maintenance of their class and reasonable value to give best services to their loyal customers. My research also seeks to highlight the consumer behaviour which makes them to keep visiting Sainsbury's. UK retail market is the best example of competitive market.

Research need to understand the product class which leads to quality of product and categorization of products, secondly the product value which shows pricing with different aspects in the UK market and specially in Sainsbury's. And I am also going to research about the failure strategies of the Sainsbury's.

I will conduct this research by the one to one interview with the senior manager of Sainsbury's as well as there would be a deep research which will be taken out from the questionnaire with the customer of Sainsbury's.

Basically the interview will give me the basic line of action of the marketing strategy of the new product of Sainsbury's and also it will identify the different products class and with their different values. Questionnaire from the customer will highlight the requirements and basic theme of the consumer that what they think, what they plan and how they choose.

I shall also discuss the last two years of the Sainsbury's progresses about the products because in past two year Sainsbury has improved their activities under the new management.

Introduction

United Kingdom is one of the most fast growing markets in fast moving consumer goods in the world. Market opportunities are comparatively very better than the other countries. Resources and legal GOVT. policies are very helpful for the new entrants in the retail market even though the UK five hundred retailers are enjoying about 85 percent of the whole market and rest of 215000 retailers are struggling for remaining market shares. And this trend or market competition encourages or forces the retailers to focus only the customer needs. This trend gives the opportunity to big retailers to make the huge supermarkets. That all the fast moving products include food and non food item, home appliances and much more under the same roof to fulfil the customer needs and these supermarkets proved more convenience for the consumers.

In early 19 century in UK, the retail market had different shape which calls co-operative movement where the multiple retailer or group of retailers comes under one management for working together to sell their products in reason able price to their customers. This trend of co-operative movement started in UK by Rochdale, Lancashire in 1840 and later in north of England's retailers. But this merging was only for the customers who purchased the products in bulk. After Second World War when the economy of United Kingdom was rebuilding, that was the perfect time for the investors to invest in the different fields of business and retailers also made their positions. Like after four year of war end Marks & Spencer opened their first supermarket in 1948 then Sainsbury's opened in 1950, Tesco opened their first self service store in 1954, Morison opened 1958 and ASDA opened first supermarket in

1963. The era of 1960, 70s, 80s was the time of expansion of these giants who later opened their supermarket with different sizes in all over the places in UK, made their stores more convenience and gave more reliable services to their customers. In today's fast paced life nobody has time to go at individual shops for all the household needs and supermarkets has fulfilled this deficiency by providing their target market all the products i. e., from grocery to personal care, and from children items to medicines and electronics, furniture, fresh items, meat, etc. etc. The availability of all these items under one roof has various attractions which encourage a customer to visit in supermarkets.

([www. tescopoly. org](http://www.tescopoly.org))

(Raphael Moreau: [franchiseek. com](http://franchiseek.com))

Supermarkets have one major advantage that customer come mentally prepared to make heavy shopping i. e., at least the stock of one week household items so that he / she do not have to come again and again for small items. As London is one of most populated city in the world and day-to-day expenses needs to be made by everyone, in this way supermarkets are able to make large volume of sales. Due to large scale of purchasing supermarkets are able to make different offers especially on the frequently moving items like snacks, cheese, drinks, chocolates, bakery items, beers, wine, vegetables, fruits, meat, etc. etc. In this way consumers are tempted to make forced selling. Due to large sales volume the selling costs goes down which in turn enhances the profits of the supermarkets.

(Grahame Dowling: Buying Behaviour)

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At the start of 2007 the UK retail market was worth about 128.2 billion with the comprehensive increase of 4 percent after 2006. End of 2007 that was reported that there are about 99,134 retail stores in the United Kingdom which contain the small stores like Spar or Londies and also include the supermarkets like Tesco, Sainsbury etc. These all stores, grocers and supermarkets are expanding their businesses widely as their target market is expanding which made the UK market best example of perfect competitive market.

(www.igd.com)

UK retail Market Growth

UK Grocery Market Performance

(Source: IGD Research 2007)

As discussed about the supermarkets and different retailers it shows that the customers of UK have wide range of option of selection. In order to evaluate the customer selection of product is the firm it should mostly refer to the traditional forms of marketing as they can be observed in most companies internationally. In this context, the study of Aufreiter et al. (2000) showed that when traditional marketers think of organization, they mean structure: distinct product, channel, and customer groups focusing on specific functional tasks, such as brand differentiation, customer segment management, and market research while functional managers play the pivotal roles in these functionally focused customer groups, which are responsible for generating ideas and taking them to market.

(Aufreiter, N., Lawyer, T., Lun, C. (2000))

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In a sense, customer selection of product is formulated in each case in accordance with the needs of the particular company but most importantly with the conditions of the market. The term of focusing the product is often used in this case to show the involvement of entrepreneur in the design and the application process of the customer satisfaction of specific product and the main targets of the marketing policies used by a specific organization. In this context, Welsh (2003) supported that this term can be defined as “ the proactive identification and exploitation of opportunities for attracting and retaining customers through innovative approaches to risk management, resource leveraging and value creation” (Welsh, 2003, 5). On the other hand, it is necessary that firms internationally use the appropriate techniques of communication in accordance with the social and cultural conditions of the market involved. Regarding this issue, the study of Dobie et al. (2003) showed that “ marketing communications are an important element of any product as it is essential to inform potential and existing customers regarding product/service availability and application, and to persuade potential users to investigate, examine, and/or try the proffered product/service”.

(Dobie, K., Grant, J., Megehee, C. (2003).

After reviewing the different views of customer selection one could easily notify that in UK where about 10 percent of the whole country is not native can be a complicated market where the product selection can be different and these people have to cover by supermarkets to attract them by their native products with concern food and grocery products. And this objective forces them to make new product lines in their stores.

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As I mentioned about the trend of supermarket in the UK and further on the three top supermarkets are following:

1. Tesco
2. ASDA
3. Sainsburys

This is the recent research that Tesco has 31.5 percent of whole UK retail market share further on ASDA who has 16.7 percent as well as Sainsbury who covered the 16.3 percent market share. In 1980s and early 90s Sainsbury had the leadership of UK market how ever in 1995 Tesco leads with 17 percent market share with rapidly increasing following years. But from past two years when the Sainsbury comes under new management with Justin King they increased well and fortune is this that could compete their rival ASDA and could regain on number two position in UK retail market. Sainsbury's management is now improving under the new managerial structure and introducing the wide range of production their stores with different class and value. They increased their organic range and new lines of something new which also include the food items which concern their other countries customers who are living in UK.

(news. bbc. co. uk)

In 2005 Sainsbury also changed their slogan " try something new today" to introduce their wide range of new products to their loyal customers. As the Sainsbury is the UK third largest supermarket has increased its like to like sale from last two years. And this method encourages them to deliver large number of products in their stores which is a challenge and if they can't do

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so they can lower their growth rate as per their other competitors who are increasing significantly. Sainsbury also increased their non food products in the stores. They want to entertain their customer with their new product line including food and non food products. But the challenge is if their other rivals like ASDA and Tesco don't slope down their non food products offers it can be a big lose for Sainsbury. Sainsbury who has about 2. 2 billion turnover per year has the fortune to increase it to 3. 5 billion by 2011. Sainsbury also have smaller stores then Tesco and ASDA which they are planning to increase their stores next year as well as likely to increase the senior management of their stores. As we know Sainsbury has the massive 136 years history in the UK market even though some of the time likes 1995 when Tesco increased its market share till now which is incredible effort of Tesco. But from last two years as under new management they increased their number of stores with their new products.

(The telegraph: 27/03/2008)

Sainsbury's supermarket chain is increasing their new product lines to fulfil the consumer requirement more customers are also making their shopping trend toward Sainsbury. Sainsbury is also managing the price strategy to maintain their sustainability in the market where there other rivals like Tesco and ASDA have vast pricing strategies. New offers are flourishing rapidly in Sainsbury. As I mentioned that UK customer have large number of selection which gives customer freedom of choice that's make Sainsbury to do more efforts. Sainsbury categorize their products with different ideas, thoughts and according to needs of consumer. I will discuss about it in next chapter but some are following with there basic themes.

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1. Taste the difference
2. Be good yourself
3. Basic
4. organic
5. Non food items

These all Sainsbury's categorize food products give the different consumers to different priorities like if we talk about the "taste the difference" products it covers those customers who come to Sainsbury to buy the quality products with the reasonable price. Second is "be good yourself" which always keep remember their customer that they are eating low fat food which makes them more healthy and specially those customer who are diet conscious. Third Sainsbury has a wide range of own manufactured brand called Basic which is key area of the Sainsbury turnover. In basic products they promise their customer to give them good products in very low price as per other supermarkets doing. Forth Sainsbury has organic products which give the opportunity to their consumers to buy the products which are total artificial ingredients free. And Sainsbury has introduced organic products in the UK market first in 1985 and latter other retailers got fruit from this product plan.

(The telegraph: 11/01/2008)

(www.j-sainsburys.co.uk)

It is recently been announced by UK retail supermarket giant Sainsbury's that their profit increased to 488 million pounds at 2007 which is 28 percent increased form last year. The declaration comes just a day after price rises leapt to three per cent, partly fuelled by improving grocery products prices.

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Chairman Philip Hampton said: “ This year has been mainly important for Sainsbury’s since it marked the achievement of the ‘ Making Sainsbury’s Great Again’ revival plan represent in October 2004 and we stimulated from a period of improvement to development.” Last financial year Sainsbury’s also take over their target 2. 5 billion to 2. 7 billion. As for the competitive prices Sainsbury also increase their number of customer visit from 14 million to 16. 5 million. And Sainsbury’s also going to distribute around 47 million pounds to their colleague this year which will come average 401 pounds to every worker.

(The Metro UK, May 14th 2008)

CHAPTER (2)

History of Sainsbury’s

The early years (1869-1940)

Mr. John James and Marry Ann Sainsbury was the founder of Sainsbury’s in 1869. The first shop they open in London at “ Drury Lane”. It was the small dairy shop as well as the area where they open the shop was the poorest area but this shop becomes very popular in the local area as their high quality product in very low price as compared to others. This success encourages Sainsbury’s owners to open more shops in surrounding areas. In 1882 this short period James Sainsbury’s had four shops and also he was planning to expand his business in other areas. On the meanwhile they also made their own brand product. Sainsbury’s also opened its wide range products shop in Croydon which become familiar in very short period. Furthermore in 1890 and 1900 the Sainsbury’s branches increased from 16

to 48 in all over London as well they open the depot at Black friars which was near to wholesale markets.

Era of World War I

The world was 1 led the Sainsbury to face the shortage of staff. in 1914 one third of the male staff left to join the armed forces. Women replace the men after getting the training from the school at Blackfriars. Company started to expand during the inter war era. Sainsbury's expended in the suburbs of London like Luton, Cambridge, and St Albans. in 1939 there were 244 shops in the UK.

Post War Era (1939-1969)

This era was the most difficult for the Sainsbury's as its assets were badly damaged by bombing and few of them were used by the army as warehouse. This era was not only hard for the Sainsbury's but for the British people. The acute shortage of food in June 1950 Sainsbury's reopened its first store in Corydon from there Sainsbury's started to boom again. In 1969s Sainsbury's started to expand in the west and Midlands.

Sainsbury's: Contemporary Image (1979-2000s)

After the world war two, Sainsbury enter a new era of prosperity and growth till then the Sainsbury's completed its age of a century. And it was still owned by the founding family. One of the major problem faces by the company in early 1970s was the shortage of oil due to which the cost increased many faults. The increase cost was overcome with the help of bulk merchandizing decreasing per unit cost. The largest stores like one in Cambridge which was opened in 1974 offered a wide Varsity of product range.

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It further started to expand in north east England, Scotland, Wales and Northern Ireland. Thus becoming a national symbol. Sainsbury's innovated a lot of techniques and styles of retailing using various tools and technology like scanning, computerized stock control and sale base ordering system. Sainsbury's was the pioneer which gave a new face to the retailing system for example by using computerizes, energy management, refrigerate plant in store bakery, chillers and freezers. The product ranges got twice till 1994 representing the numerous range of product like produce fresh foods, salads, ready meals, reduced fat milk and different types of specially breads. Sainsbury's was the first British market to mark the " fair trade" products and using the recycle martial for the paper products and the carrier bags.

The profitability measures of Sainsbury are 1991 – 2002:

Sainsbury Profitability ratios

1991

1992

2000

2001

2002

Total operating profit margin

5. 10%

4. 85%

3. 74%

3. 41%

3. 72%

Group profit before tax margin

4. 70%

4. 62%

3. 33%

2. 98%

3. 44%

Interest payable as a percentage of turnover

0. 50%

0. 31%

0. 41%

0. 41%

0. 27%

Source: http://www.bized.co.uk/compfact/ratios/profit_add6a.htm

Sainsbury's maintained the profits in the years 2000 to 2002. In 1998 – 1999, the profits were better than year 2000. The shows that the profit

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slump is noticeable and was due to the management failure and high competition.

Source: http://www.bized.co.uk/compfact/ratios/profit_add6a.htm

Clear from the chart that Sainsbury's lost its profit sharing in the year 2001 and 2002 and it discontinued many operations and it earned the minimum profit in the year 2002 which started to decline from the year 1998.

Today Sainsbury serves more than 16 million customers each week. It has 455 supermarkets and 301 convenience stores across UK. More than 148,000 people work under the umbrella of Sainsbury's. Sainsbury's strongly believes in high quality products and low price. Following that Sainsbury's decrease 8500 prices in 2006. Keeping in view the advanced customer concerns about the health (health conscious customers). It introduced the "Wheel of health" following the traffic light system, highlighted the ingredients and calories presented to customer. These days more than 2000 products have been labelled by the wheel of health.

Sainsbury's also contributes in charities and local community as well. It donated 70 million pounds to all primary and secondary schools with the help of its "active kids campaign" using the fair trade products as a priority project. Its image as the strong supporter of poor deserving farmers throughout the world. In 2005 and 2006 Sainsbury's staff donated around 9 million pounds in several of charities. Sainsbury's also supports the Comic Relief and Sorts Relief. Sainsbury is also committed towards the environment and does not support the use of plastic carrier bags, which are made of 33 percent recycled material processed in most advanced recycling units. Sainsbury's has <https://assignbuster.com/sainsburys-strategies-for-customer-retention/>

lunched a lot of campaign to reuse the plastic bags. Such sort of activities has reduced the carbon emission by 20 percent since the year 2000.

At 14 May 2008 announcing the results of last financial year 2007 Justin King Chief Executive said “ since then we have grown sales by 2. 7 billion pounds, betting the target of 2. 5 billion we said ourselves, and in march we reported our 13th consecutive quarter of like for like growth. I am also pleased to be able to let you know that, we have reported an increase in profit of 28 percent, up to 488 million pounds for the year ending 22 March 2008, more then double the 238 million pounds we reported for the year ending March 2005”.

Research Question

What makes the customers to opt the products in terms of class or value in the Sainsbury's?

This research will provide the essential key points of customer selection of products in terms of quality and price in Sainsbury's.

Aims and Objectives

The main aims and objectives of this research project are to:

- Analyze the customer priorities by quality, price and quantity while shopping in Sainsbury's.
- Find the purpose of range of products in Sainsbury in terms of quality and price.
- Prices of the product as per other competitors.

- Marketing strategy of Sainsbury's for their new products with different prices.
- Purpose of product categorization in Sainsbury's.
- Critically evaluate and make out the upgrading which could be introduced into Sainsbury's based on the price and quality.
- Scrutinize the past activities to identify the areas of failure of their products by price and quality.

Personal Objectives

My personal objectives are:

- To get aware from leading supermarket's marketing strategy for their range of products and boost my international marketing edge.
- Secondly to complete my subject and go further for my MBA degree.

CHAPTER (3)

Literature Review

Promotion

The retailers having more items and products meeting the customer needs and information called as full service retailers covering every phase of the market segment and Operating such type of retailer service not to be an easy job to be done. Due to the high cost of staffing, higher number of goods including the fast moving consumer goods (FMCG) and slower moving items. Therefore the resulting of towering cost of the business. Hence the promotion of the product of such type of retailer like Sainsbury's is highly debatable so as to increase the sale and profit margin. The marketing promotion can not be neglected. In this phase of increase competition, adopting such strategies can easily make a difference. A retailer's most

important decision depends upon the target market. One has to define and profile the target market before taking any decision. The retailer especially like the Sainsbury's emphasises on the product assortment and procurement to comply with the target market demand. Challenge of the product assortment leads to develop a product differentiation strategy which differentiates the seller or retailer or merchandiser from the competitors on behalf of product. Seven known possibilities of the product differentiation strategy are

1. Exclusive national brand
2. private branded merchandise
3. Distinctive merchandise events
4. Surprise merchandise
5. New merchandise first
6. Merchandize customizing service
7. Highly targeting assortment

Although Sainsbury's does not fall in all of such category and has not still adopted but the strategies like private branded merchandize, newest merchandise and targeted assortment have effectively been adopted. Sainsbury can make a difference by product differentiation such as offer merchandise which has been successfully introduce by Harrods's of London which makes customer oriented/tailored suits and further clothe accessories. Such type of customer assistance increases the customer satisfaction as well as customer confidence. Retailers like Sainsbury Tesco, ASDA Morison are improving there efficiency by forecasting and merchandizing for stock control, space allocation and display. For ordering the goods, measuring the

inventory and analyzing the sales. The supermarket chains have adopted their computers and scanners to manage their merchandise mix. Direct product profitability (DPP) is currently being used to measure the cost of the product in store from the point of arrival till a customer buys it. Low volume products have normally low handling and keeping cost as compared to the high volume products which have high handling cost and therefore are less profitable. Thus they are kept in a low volume normally. This strategy has been successfully by the Sainsbury's by keeping the more number of groceries and a less number of home ware items therefore Sainsbury makes a profit margin from the FMCG products.

(Philip Kotler, Millennium Ed)

Sainsbury supply chain

The supply chain strategy of Sainsbury was launched in autumn 2000. The supply chain strategy of Sainsbury is focused on managing all segments starting from logistics and distribution to the shelf of the store. The goal of the Sainsbury's supply chain strategy is based on the following few principles:

- Paper less
- Stockless
- Simple
- Automatic
- Precise and accurate

Sainsbury emphasize at improved performance via reducing the cost improving the accessibility and availability, minimum loss and maximum level of services. Development of such innovative processes is developing to

provide most effective and efficient service with least cost, thus delivering the reduced cost and profit to the customer in aspect of price. Sainsbury's replaced all of the warehouse management and data base management over a 3 year period time since year 2000.

(www.sainsburys.co.uk)

J Sainsbury chief executive Justin King announced the “ Recovery to growth” at 14th may 2008. He said “...we have already celebrated our success in growing our sales by 2. 5 billion pounds but today we confirmed that we have achieved all of the target we set ourselves in our three year recovery plan. Looking to the future: we now need to continue this success so that we can achieve our new three year target, which we set out last May, of an extra 3. 5 billion pounds of sales by March 2011. this is the next part of our, `Making Sainsbury Great Again plan,` where we will be focusing on moving from recovery to growth. Its another challenging target but I am confident that we will achieve it. We will continue to concentrate on the things that have helped us succeeded so far- great service and great availability to drive great sales. We will also continue to carefully manage our costs, so we can increase our profit. Store development will also be big focus for us, with our half of our stores undergoing works and opening the hundred new convenience stores over the next three years. We will also be expanding our online operations to two hundred our stores.” By March 2008 Sainsbury achieved 2. 7 billion extra sales over the original target of 2. 5 billion.

(The Telegraph, May 18th 2008)

He also declared 45 million pound to be distributed as bonus among 118000 colleagues this June. It is very clear statement of Justin King that the key to success is the great service and great availability which proved Sainsbury's great again. Great service includes the customer service after sale services and customer convenience in the stores. Where as great availability covers the availability all of the products at all time making successful the supply chain of the Sainsbury's. The higher sales are result of supply improvement since 2005. Sainsbury's has been focusing to improve the stock availabilities by resolving information technology issues and delivery problems which was affected by its bad supply chain earlier. In 2005 the sales increased 3. 7 percent which latter on lifted up to 7. 2 percent in late 2005. Justin King said " our major focus on availability in beginning to show results with both colleagues and customer noticing improvement in store". Justin King always emphasizes on the availability in any aspect starting from improving themselves in terms of refurbishment and colleagues training.

(www. bbc. co. uk)

Supply Something New -Value and Quality

For the very begging Sainsbury has been struggling to provide the customer satisfaction via quality and price. Sainsbury has adopted a number of strategies regarding the concern for example Taste The Difference, Be Good Your Self, Basic, Organic, special offers like Buy One Get One Free, Buy Four Cheapest Free, Multi buy Price Offer, Buy One Get One Half Price and many more. Sainsbury does not only keep the concern with the customer but with the supplier as well. Sainsbury launched its new plan regarding the innovation in retail industry by introducing the supply something new

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scheme. Scheme was offered from 21 SEP 2007 and is offered to all sized food supplier. Scheme encourages the suppliers to offer the best they can offer to be shelved in Sainsbury's. Kelly's of Cornwall, Danby Dale Pie Company, Jack Scaife Bacon and Honey Buns have been recently added on the list of Sainsbury's products. The process is quick and reliable and takes only three months to complete. The successful applicants are approached by the supply chain team to transport the product from producer to stores. The scheme has only been offered to small and medium size manufacturing companies so as to offer a minimal price to the end user depending upon the level of productivity of the producer for example cranberry, flap jack, and plain vanilla flap jack are offered at the price 2. 59 pound and 3. 39 pounds respectively. The scheme does not only reflects the innovative thought of the producer but the user himself because the scheme is valid for small and medium base firm only and it is only the buyer or journal customer/user who operates at such level.

(<http://www.supplysomethingnew.co.uk/index.asp?pageid=11>)

Sainsbury's and Fair trade

The fair trade label was first defined four decades ago in 1988 by Max Havelarr used for a coffee from Mexico. Basically fair trade is a strategy develops to minimize the poverty and growth for the developing and under developing countries. The fair trade was specially design for such formers who lake the access the world market possessing improved trade benefits. Sainsbury is the UK biggest fair trade retailer. The fair trade certify products are those which are bought from the marginalised small scale farmers and agricultural workers, keeping a non fixed minimum price that a buyer has to

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pay to the seller. It is the set price which covers the cost of the product. The fair trade price has the safety advantage to the farmers even if the price of the product falls below the market level. On the other hand if the market price higher then the fair trade prices the buyer has to pay the market price. Through this fair trade the buyers and sellers sign the long term trading relationship for a specific predefine grades of produce. The fair trade law tells the end user advantage of the usage of the product and helps in effective promotion and identification of deserving quality products.

Sales of Fair-trade certified products in the UK

Estimated UK retail sales by value 1998-2007 (£ million)

Estimated percentage increases from 2006-2007

- Total sales: 127% increase by volume and 72% by estimated retail value
- Total coffee: 33% increase by volume and 24% by estimated retail value
- Total tea: 21% increase by volume and 24% by estimated retail value
- Wine: 47% increase by volume and 51% by estimated retail value
- Flowers: 71% increase by volume and 72% by estimated retail value
- Cotton: 1, 655% increase by volume and 658% by estimated retail value

The volume of the fair trade products has been doubled between year 2006 and 2007. according to the data, consumers spent 1. 1 billion pounds on fair trade products in 2006.

As an average Sainsbury's sales around 10, 00, 000 fare trade bananas.

Justin King said, " by working together on this scale, the new fund will help to dramatically extend the benefits fare trade create to more farmers and worker in new areas, which have previously note been fait trade accredited".

Sainsbury has a land mark to converte all of his bananas to fair trade in July 2007. According to the s Sainsbury's sells 1000 bananas a minute, 150 thousand a week and 700 million bananas a year and all of the bananas are fair trade. The sale of bananas have been increased by 5 percent (approximately 35 million bananas) since the Sainsbury's has jumped to 100 percent fare trade bananas.