



FUTURE LEADERS ANNUAL CONGRESS
24th-26th October 2004, Prague
Czech Republic

Smart shopping – WHAT DO CUSTOMERS REALLY VALUE,



EXECUTIVE SUMMARY

Smart Shopping –
What do customers really value?



24th -26th October 2004 Prague, Czech Republic

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What is CIES? – The Food Business Forum

CIES - The Food Business Forum is the only independent global food business network. It serves the CEOs and senior management of 175 retailer and 175 supplier member companies, and their subsidiaries, in over 150 countries by:

- Providing a neutral platform for knowledge-exchange, thought-leadership and networking. Current activities include the Global CEO Forum, the World Food Business Summit, the Future Leaders Programme and the functional areas of Marketing, Information Technology and Supply Chain Management.
- Orchestrating positions and developing tools on key strategic and practical issues affecting the food business. Priority projects include the Global Food Safety Initiative and the Food Business in Society Initiative.

CIES - The Food Business Forum has been growing with the food business for over 50 years. Its strength lies in the active commitment of its member companies and its privileged access to key industry players.

CIES retailer members alone generate over \$2,000 billion, employ 4.5 million people and operate close to 600 000 stores representing a total sales area of 160 million square metres.

The CIES MISSION

CIES – The Food Business Forum is a Europe- based organisation with a global reach which represents the food retailing sector. CIES orchestrates top-level networking among retailers and suppliers and with other stakeholders in the food business. CIES facilitates the definition of common positions to support existing organisations on key issues affecting the industry?

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COMMITTEE MISSION STATEMENT

The Mission Statement of the CIES Future Leaders Programme is to provide the structure for potential senior managers in the food business to gain knowledge from shared experiences. The programme is designed for future leaders who are considered by their companies to have the potential to become part of senior management.

The Future Leaders Programme consists of:

1. An Annual Congress held in Autumn concentrating on general management and operational issues involving interactive debates, delegates' participation and presentations. The 2005 Annual Congress will take place in Barcelona, Spain.
2. A strategic "Breakthrough" Module usually each Spring (by invitation only) for key FLP "loyal customers". The 2005 Breakthrough is currently planned to take place in Cape Town this spring.
3. Studies on key industry issues, run on member companies for the member companies' benefit.

Future Leaders Programme Annual Congress 2004

“Smart Shopping – What do customers really value?”

24th-26th October 2004 Prague, Czech Republic



EXECUTIVE SUMMARY

CONCLUSIONS

General conclusions of the conference

Satisfying smart shoppers

The middle ground of standardised products and stores is shrinking. Smart shoppers are using unprecedented levels of choice and information to impose their own vision of value. To meet these demands, retailers need to provide something distinctive, whether through low-price limited assortments, exclusive high-quality products or exceptional customer service.

Leading through people, not processes

You need to take risks in order to stand out in a world of oversupply. Retail is detail but like other sectors it also depends on leaders convincing others to commit to new ideas. Developing leaders at store level is particularly important for retailers because customers are in contact with the organisation every day on the sales floor.

Smart investing in new markets

New EU countries like the Czech Republic offer major growth opportunities but finding a profitable formula is not easy. You have to understand fully the specific demographic and market conditions of the country in order to choose the appropriate format, assortment and locations. German discount retailers have taken a lead in Central Europe because of their cost efficiency and cultural affinities with new EU countries.

KEY CONFERENCE QUOTES FROM SPEAKERS

“Tension is a healthy part of every productive organisation ... A leader is never afraid to hear an alternative point of view.”

Neville Isdell, Chairman & CEO, The Coca-Cola Company

“So what do you stand for as a leader?”

René Carayol, Business guru, Broadcaster and Author

“There is less and less in the middle, where a lot of companies were born to satisfy the middle class with a huge volume of standardised products.”

Dr. Kjell A. Nordström, Institute of International Business, Stockholm School of Economics

“Disciplined brands are built through processes, great brands are built through people.”

Adam Morgan, Founder, eatbigfish

“There really are no commodities any more. There are only under-marketed categories.”

Perry Seelert, Vice President, Product Strategy, Daymon Worldwide, Inc.

“For Central Europe, the compact hypermarket is the only sensible format.”

Jürgen Elfers, Financial Analyst and Head of European Retail Research, Commerzbank

SUMMARY – Sunday 24th October

STRATEGIC SESSION – Smart Shopping – What do customers really value?



Welcome to the CIES Future Leaders Programme

Stephen Quinn, Business Development Manager, Superquinn, and Chairman of the FLP Committee

Stephen Quinn introduced the theme of the conference by referring to the retail environment in Ireland. When Aldi and Lidl arrived in Ireland three or four years ago, Superquinn thought that consumers wouldn't shop there because they like brands. But now the discount chains claim 6% market share and Aldi is opening a store a week. Superquinn responded by bringing in the low-price Euroshopper range, but customers still thought it was expensive because they were comparing its prices on A brands with the prices of Aldi and Lidl. As a result, grocery categories have become difficult for Superquinn and the retailer is hearing the same story from people in Europe.

Setting the Scene: Smart Shopping - What do customers really value?

Ira Kalish, Global Director - Consumer Business, Deloitte Research

What is smart shopping? It is consumers being wise to retailers and making a sophisticated value calculation. Ira Kalish explained the following factors behind smart shopping:

What do customers really value?

They value "value". This means a number of things:

- Low prices: this is also true for high-income consumers, as shown by the fact that the top-performing 99 Cents Only store in the US is in Beverly Hills.
- Quality: this is illustrated by the initial problems of Carrefour's Dia banner in Brazil, where poor consumers thought the quality was not as good as at fresh markets. Discount retailers are meeting this quality expectation, whether in apparel in the US or grocery in Europe.
- Speed and convenience: there are a growing number of two-income households who want to get in and out of the store.

- Health and the shopping experience: these factors are shown by the rapid growth of Whole Foods.

Why do customers focus on value?

- Everything is a commodity: all that matters is price, like for petrol.
- Everything is good quality: we have the capability to manufacture quality goods cheaply in countries like China and Bangladesh.
- “Demonstration effect”: discounters have shown customers they can get the same quality for less.
- Shopping is no longer fun or novel: massive consolidation has produced a smaller number of players doing the same thing.

Competitive drivers

- Discounters have put pressure on other retailers, who have reacted by cutting costs. But this has been at the expense of merchandising, so retailers end up looking the same and consumers become more focused on price.
- Retailers are struggling with the mix of brands and private label: the latter is cheaper and has higher margins but brands are needed to keep differentiation and choice.
- Suppliers are struggling with the mix of new and old brands. Wal-Mart for example is reducing its number of vendors for each merchandising category. Suppliers need to rationalise their brands: they are good at new, innovative brands but need to retire old, less profitable ones.

Consumer behaviour drivers

- Some consumers no longer care about brands since they are making an independent decision.
- More brand conscious shoppers include women, middle-aged to elderly people, wealthier people, married couples and parents; although all these groups care less about brands than before.
- Demographics help and hurt, since the growing number of elderly are brand-conscious at the moment, but the next generation of elderly won't be.
- Consumers believe low price stores offer good quality, as shown by the success of Target in apparel.
- Competition from other food channels is much larger than it used to be for hypermarkets and supermarkets: in the US, many people are going to Starbucks for breakfast.
- Internet is creating a generation of smart shoppers: in the US, half of automobile transactions are preceded by a web search. This makes everything a commodity, even cars.

What to do?

- Differentiate: create a compelling proposition not focused only on price.
- Branding: Tesco does a very good job in the UK since customers understand that the brand can be extended to various categories.
- Enhancing the shopping experience: as shown by Whole Foods and Waitrose, customers value quality merchandise and will pay a premium.
- The value proposition must include quality: US airline Jet Blue for example is very cheap but also offers leather seats and satellite TV for each passenger.

Questions & Answers

In terms of differentiated concepts, Ira Kalish said there were examples like Whole Foods but not among the major players. In the US, retailers successfully competing against Wal-Mart are not trying to compete on Wal-Mart's ground.

On communicating brand messages, he noted that the overload of information today has reduced the effect of advertising. In response, product placements in films and TV programmes have become a way of getting at consumers.

Asked what is stopping retailers from differentiating, he argued that cutting costs is the easiest thing to do to protect market share when faced with price competition. Differentiation takes time and is not easy to work out.

The Waitrose brand strategy - a case study in adding value through quality Mark Price, Director of Selling & Marketing, Waitrose Ltd

After nearly 100 years of existence and 60 years as part of John Lewis, the employee-owned partnership, Waitrose asked Mark Price to set up a marketing directorate in 1998.

So why market Waitrose? A survey showed that the company had more secondary and fewer primary shoppers than the biggest supermarket chains. Waitrose was seen as a great place to shop if you were entertaining or having a dinner party, but not for everyday shopping. In particular, most people perceived Waitrose as expensive on the basis of its smaller, smart-looking stores and its lack of low prices. This was despite the fact Waitrose checked key prices every week; a survey found that only 30% of customers knew what the retailer charged for milk, one of the products it checked against competitors. This perception was a problem because it prevented Waitrose from growing. As a result, the company couldn't afford to buy new sites, was unable to benefit from economies of scale and saw competitors expand through new stores and premium ranges.

The challenge for Waitrose was to enhance its reputation for quality while improving its price perception. It realised that it didn't tell customers about its quality – for example the fact it employs four Masters of Wine, more than any other supermarket. Customers thus didn't have any information on which to base a

real value proposition. Waitrose decided to re-engineer its value proposition and expressed it in the slogan "Quality food, honestly priced".

Mark Price outlined how Waitrose communicated this message:

- Press. Newspaper and magazine advertising stressed the origins and the quality of the products. This was very different at a time when low price was the focus in the UK. For its range of Indian ready-meals, a photo of India was presented with an explanation of how an award-winning chef had chosen the ingredients. Surveys showed that consumers who were aware of the advertisements were more convinced of Waitrose's value message than those who were unaware. A 2001 poll showed that shoppers who had seen the advertising were visiting Waitrose more often and were spending more.
- Television. A campaign was launched in 2003 in an effort to reinforce Waitrose's quality position amid growing competition in the grocery sector. TV offered a broad medium that could reach both primary and secondary shoppers. The commercials emphasised the retailer's distinct product offer in categories such as bananas (sourced directly from small producers in the Caribbean). The benefits of the campaign were measured concretely, with £16.4 million or +8.4% in extra sales, and 556,000 or +8.7% in extra shopping trips for customers having seen the TV commercials in the past four weeks.
- Radio. Waitrose sought to push a stronger price message through this local medium. The quality aspect was still there but promotions were pushed.
- Waitrose.com. Launched in 1999, Waitrose.com was developed as a food and drink portal, acting as a key destination for food information and expertise. In 2003, over 5 million people visited Waitrose.com and it was voted the second-best internet service provider in the UK for customer satisfaction. It is also run on a non-profit basis and generated £90 million for charity this year.
- Waitrose Food Illustrated. This food magazine was acquired by Waitrose in 1999. The magazine serves as a representation of Waitrose's philosophy on food, a reward for loyal customers and way of communicating to new ones through an international distribution network. Circulation is now 261,000, with readership at just over 1 million. The publication has generated at least £5 million in extra sales.
- Customer events. These events range from concerts and ballet to historical visits. A key feature has been sampling, in order to increase brand awareness and educate on range and quality.

Overall, this marketing strategy has helped convey a holistic vision to the consumer. Everything done over the past six years has been about reinforcing the brand. The challenge, Mark Price concluded, is to continue to deliver consistent and integrated consumer communications that differentiate Waitrose from its competitors.

Questions & Answers

Mark Price explained that Waitrose has attracted more middle-income shoppers over the past seven years, in addition to its traditional base of wealthier consumers. But all UK shoppers are more promiscuous today: 36% of Tesco's customers are secondary shoppers, he noted. Some customers for example are buying food at Waitrose and non-food at Asda.

In terms of staff training, he pointed to the low turnover at John Lewis. Training sticks because people stay, he argued. As an illustration, Waitrose pays for 100% of vocational training and 50% of non-vocational training.

Smart Discounting - offering shoppers more than price

Jürgen Elfers, Financial Analyst and Head of European Retail Research, Commerzbank



Rise of the food discount formats in Europe

Aldi pioneered the modern discount format based on a limited assortment at low prices. German chains, led by Aldi and Lidl, dominate the discount segment, making up six of the top 10 discounters worldwide. However, they have been joined by other operators like Dia (Carrefour) and Leader Price (Casino) with a different style of discounting. Dia, for example, offers a wider assortment (2,500 lines versus 700-1,000 for Aldi/Lidl) at smaller stores but generates a good return, partly by leasing its stores. Discount food retailers are gaining market share everywhere in Europe, from Germany, where their share has risen from 29.5% in 1995 to 37.4% in 2003, to Spain, where the figure rose from 6.5% to 10.4% for the same period.

Format superiority – the high / low strategy

Given overcapacity in selling area, the value proposition requires rethinking. There is now a divide between quality, choice, ambience and service on one side, and low prices, highly efficient operations, market share gains and high ROCE [Return On Capital Employed] on the other. Discount retailers have reinvented the premise of modern retailing, “pile it high and sell it low”, with a new high/low strategy:

- High sales densities / low capex investments: Aldi Süd in Germany has a capital intensity rate (i.e. capex to sales ratio) of 20.4%, compared to 77.3% for Tesco in the UK.
- High sales per SKU / low gross margins: Aldi as a whole in Germany achieved sales per SKU of €24.48 million in 2003, compared to €291,000 for the best hypermarket performer. At the same time, it records a lower gross margin than other major food retailers but achieves a higher earnings ratio because of its high sales density and low operating costs.
- High operating margins / low levels of operating risks: discount stores attract funds from real-estate investors because they are a low risk category. And because they have lower return requirements, discounters benefit from lower lease costs.
- High expansion momentum / low levels of capex: Aldi Süd had an estimated capital intensity rate of 20% for Europe in 2003, compared to 103% for Tesco. This means that Tesco is investing more than it gets back in sales and so is subsidising its European operations.

Smart discounting – more than just low price points

Buzzwords in modern food retailing include customer loyalty and category management. Discount formats have a totally different view: they offer best possible value for money using unrivalled purchasing power per SKU. In particular they propose a “pre-selection function” as a value-added service. This means that they have a limited assortment in which each SKU is profitable. In other words, they offer the best possible value for money by eliminating marketing and over-engineering. In contrast,

supermarkets “cross-subsidise” in order to offer a wide range of products (e.g. Sainsbury’s 280 SKUs for coffee in 2003). Moreover, discount stores obtain the best quality/price ratio by pre-determining ingredients and recipes with suppliers. Jürgen Elfers found for example that in the sliced meat category, Aldi had a much higher percentage of products with nutritional analysis and low-fat content than supermarket chains.

Smart discounting – more than just small shops

The dramatic gains achieved by discount operators have not come only from traditional discount stores. Kaufland, which forms part of the Schwarz Group alongside Lidl, has used superstores to expand rapidly in Central Europe, growing from 11 to 101 outlets between 1998 and 2003. Tesco is now using compact hypermarkets in Poland and Hungary, and has plans to develop them in the Czech Republic.

Reinventing categories and “owning” them in consumers’ minds

Perry Seelert, Vice President, Product Strategy, Daymon Worldwide, Inc.

There really are no commodities any more, Perry Seelert argued, only under-marketed categories. This is shown by the fact that you can buy different types of sand for building or various types of petrol (“engine-friendly”, “less sulphur” etc) for your car. He explored the question of reinventing categories in relation to four issues.

1. Differentiation. This is a retailer’s unique “fingerprint” but many retailers are trying to achieve the same thing. Over half of an average grocery store’s 30,000 SKUs are exactly the same, over 90% of retailers say they will be “emphasising perishables” next year and almost half have a frequent shopper programme. Whereas 10 years ago, retailers moved from being merchants to marketers, the next step is to move from being marketers to innovators. Waitrose in the UK for example has managed to differentiate the potato, the staple item of the European diet. It has done this by selling 40 varieties and communicating their origins to consumers. A retailer developing new products should aim for “sustainable break-outs” based on emotional differentiation.
2. The hot spots. According to McKinsey, some categories like pet food and baby products have been lost to mass merchants. Others grocery products are in a “battleground” in which mass merchants still have less than 40% share. Another hotspot is highly consumables. Like Waitrose with the potato, Korean retailer Lotte has reinvented a staple category by marketing a “nutritional egg”. In Japan, Aeon has taken everyday tofu and marketed an organic variety packaged in small chunks. Retailers can also define destinations beyond staples. Stew Leonard’s in the US has built on its sales of Christmas trees by marketing a special formula that is “like Gatorade for trees”.
3. Reinventing Oil. Daymon Worldwide has developed a programme to help retailers to reinvent and “de-commoditise” oil. The starting point was the insight that customers didn’t know what oil to use in specific cooking situations. Daymon’s strategy was to target both experienced and inexperienced consumers through a tiered offering of upscale, everyday and value products. The first stage in delivering the campaign was achieving product and packaging innovation. It is important to understand the production process to see where you can add innovation. In packaging for example, pouches were used in some markets for single-serve convenience and in others as an economy feature to save bottles. From the campaign slogan, “It all begins with the right oil”, consumer communication was developed through cross-merchandising of products and recipe cards and flyers.

4. How to start? You first have to adopt an innovator attitude and believe in it. You also have to get your peers to understand the urgency to “fingerprint”. Then start with a few (3-5) category anchors and get support from a product development partner. You have to know the consumer but really get to know the product in order to create the link between the manufacturing process and consumers.

The power of innovation

Martin Ricoy, President of the Home Decor Division – Europe Newell Rubbermaid



Innovation, Martin Ricoy argued, is creating a set of needs that consumers today do not know they require. Newell’s home décor division needed to innovate because it was in a mature category not seeing growth, faced pressure on prices from retailers and consumers, and saw increasing competition from me-too products coming from Asia. The key issue was understanding that these categories were about fashion. However, do-it-yourself (DIY) retailers – one of Newell’s two main channels together with the assisted-purchase channel (APC) – were focused on cost rather than fashion. This wrong formula caused DIY stores to lose market share.

The right formula is to understand the end user – primarily women – and then connect with her through fashion-forward concepts. Building brand awareness is vital because home décor products like blinds are shopped only once every five to seven years. Developing channel differentiation between upscale APC and self-service DIY was also crucial: Newell’s focus was on creating trends in the first and then knowing when to take them to the second. Martin Ricoy outlined two examples of Newell’s innovation in product development and marketing:

- Mix ‘n’ match. This concept for curtain poles was in response to customers’ desire to design their own space. Instead of pre-packed sets of poles and finials, they wanted to select freely. Newell introduced interactive mix ‘n’ match product displays in stores and supported this with communication on easy installation and merchandising of accessories. The concept was first launched in the UK in 2001 and doubled category sales there. It has now been transferred to France, Italy and the US. In addition to the innovation and interactivity, a key success factor has been the relative low cost of changing pieces.
- Size in store. Blinds was a growing category as consumers were replacing older, heavy curtains with lighter drapery. However, Newell could not compete with direct-sourced cheap blinds. The company’s solution was to offer tailor-made blinds to fit customers’ homes. In other words, to bring a made-to-measure concept to the mass market. Newell installed machines in stores to cut blinds according to the measurements of the customer’s windows.

Innovation is as much about concepts as about products, he concluded. Newell’s Kirsch brand has now developed a “Moods” concept that offers lifestyle schemes to help customers shop for drapery that suits them. Innovation is also about raising the bar on in-store execution. This is crucial because 75% of purchasing decisions for home décor happen in the store, while 53% of customers use the store as their main source of inspiration. Customers thus want live product samples, visuals of product in-situation and guidance on accessories. To match these end-user needs with retailers’ requirements in profitability, cost

and category management, Newell this year launched a "Merchandising Centre of Excellence" in Germany.

Questions & Answers

To work out what women consumers want, Martin Ricoy stressed that you have to do market research in each country, especially in a very diverse region like Europe. Asking the audience in turn whether fashion was relevant to food, session moderator Tobias Wasmuht, International Marketing Manager of Spar International, noted that while food retailers were previously guilty of treating products as commodities, new stores are creating worlds of experience in categories like health and beauty.

The Czech & Central European retail scene

Jürgen Elfers, Financial Analyst and Head of European Retail Research, Commerzbank

Introduction to food retailing in the Czech Republic

After a dip in the early 2000s, the country has returned to sound GDP growth. Consumption patterns of private households are moving towards structures in Western Europe. Food accounted for an estimated 22% of household consumption in 2002 and may fall further as the fragmented retail sector consolidates.

The Czech Republic in a Central European framework

The four Central European countries – Czech Republic, Hungary, Poland and Slovakia – have undergone far-reaching structural changes and have a positive attitude towards the future. These factors should lead to further retail sales growth. The leading food retailers in Central Europe are Kaufland (Schwarz), Penny (Rewe), Plus (Tengelmann) and Tesco. Czech consumers spend the lowest relative shares on food and clothing but have among the highest relative spending on housing.

Food retailing in Central Europe

For leading Western European retailers, operations in Central and Eastern Europe are still marginal in terms of sales contributions. Metro is an exception, helped by the higher sales density (3x) and lower capital investment (c. 50%) of its cash & carry stores compared to hypermarkets. The high capital costs of hypermarket operators imply that large, stylish hypermarkets may not be the appropriate format for the region. This point is emphasised by the dynamic roll-out of Kaufland using superstores. Overall, we can expect German-based companies to become the most successful players in the region because of cultural affinity between Germany and Central European countries.

Food retailing in the Czech Republic

Hypermarkets have enjoyed substantial success in the Czech Republic, while supermarkets have lost customer preference since 2000. Compact hypermarkets are being established at twice the rate of conventional hypermarkets, driven by the growth of Kaufland. Globus and Kaufland seem to be the most successful hypermarket banners currently in terms of sales density. Hypermarkets and discount stores are both forecast to gain an extra 6% market share over by 2006 and this will create price pressure on supermarkets. The roll-out of Lidl could also have an effect on profitability in the retail sector.

Questions & Answers

Asked about average capital intensity for retail as a whole, Jürgen Elfers explained that such a figure would not say much since it requires analysis of the property of retailers (i.e. whether stores are owned or

leased). Lidl's strength, for example, lies in its 20% capital intensity and its 100% store-ownership. In China, meanwhile, the number of hypermarkets will double from 500 at the end of 2003 to 1,000 at the end of 2005. This means that retail property prices will rise and so China could be one of the next trouble spots, he warned.

The Czech story

Josef Havelka, Regional Director for Central and Eastern Europe, Leo Burnett



Josef Havelka offered insights into the Czech consumer based on the most recent (2002) results of a lifestyle study conducted by Leo Burnett every two years since 1995. In the latter half of the 1990s, Czech society experienced what former president Vaclav Havel called a "bad mood", as the optimism created by the fall of communism disappeared. 1999 proved to be a turning point: the economy recovered, the Czech Republic joined NATO and focused on preparations for EU accession.

The Leo Burnett survey shows that Czech society is becoming increasingly optimistic and relaxed, with a more modern and active lifestyle now more common. Josef Havelka outlined the following specific findings:

- Lifestyle typologies. Czech society has gradually been losing its homogeneity and has started to polarise between categories such as "the aspiring" and "the old time believers".
- Financial situation. In the 2002 survey, the number of those who evaluated their family's financial situation as worse than a year ago decreased, and for the first time, the number evaluating their family's situation as better did not decrease.
- Role of the state. Demand for a welfare state remains strong but has gradually decreased. The Czech population has reservations about the advantages of EU membership but expects improvements in specific areas like politics, law and education.
- Work attitudes. Money is still gaining in importance: people are increasingly interested in whether their salaries correspond to their efforts and are less shy about aspiring to higher incomes. However, increasing demands on performance have led to a tendency to look for less demanding work, while a large section of society is still deeply egalitarian.
- Leisure-time activities. Czechs increasingly aspire to fulfil their desires and dreams in their leisure time. In other words, they want to be active in their free time and spend it in their own way.
- Personal aspirations and success. Czechs do not have extremely high aspirations: they want to live ordinary lives surrounded by family and friends in a just society. There is a growing feeling of alienation and that "no one is to be trusted 'these days'".
- Family values and family life. Partnerships are still taken seriously but more people think that marriage should not limit personal freedom.

- Money, shopping and consumption. People are losing their Communist-era prejudices about money and increasingly believe that money enables them to do what they want. Czechs are still price-sensitive but have begun to place more emphasis on the quality of products. Shopping is also increasingly a pleasurable activity, particularly given the development of shopping centres.
- Appearance and personal care. People are buying more vitamins and supplements and exercise is becoming more common. Moreover, having clean underwear every day is important for 90% of the population!
- Food. More than 80% of the population now emphasises quality and taste over price for food. Czech foods are still considered the best, although foreign foods are popular with more than half the population, especially the better-off. For 30% of the population, beer remains a popular drink to have with a meal.

Questions & Answers

On the effect of change on Czech women, Josef Havelka stressed that a very traditional outlook remained, with the woman seen as the gatekeeper of the household. An increasing number of active women are opposing this model but many men have traditional attitudes, even in advertising. Concerning health trends, he explained that more active segments of the population were moving away from traditional towards health foods such as muesli, which has become an established category over the past couple of years.

Store Visits Feedback

Session moderators: Luciano Catoni & Petr Leidl, McKinsey & Co.



Introduction

The FLP Store Visits Programme covered four stores located in the Prague 5 district. These four stores were:

1 - STORE PROFILE:

Carrefour



– Information on the store

Store format	Hypermarket
Address	Narozni I, Prague 13 – Stodulky
Store Manager	Frantz Crohet
Telephone number	+420 251 173 111
Fax number	+420 251 173 258
Opening days & hours	Mon-Sun: 08.00- 22.00
Date of first opening	19th November 2003
Retail area	9,444 m ²
Number of checkouts	Approx. 50
Personnel (full time)	Approx. 250
Parking lot capacity	1,200 places
Description of the concept	Traditional hypermarket
Comments	Recently opened store. Located in a very competitive area (less than five minutes away from four hypermarkets, one cash & carry and various supermarkets), this store is increasing its market shares, particularly in terms of recurrent customer volume.

2- STORE PROFILE:

Delvita



– Information on the store



Store format	Supermarket
Address	Jeremiášova ulice, Prague 5 - Stod lky
Store Manager	Jan Lettrich
Telephone number	+ 420 724 612 306
Opening days & hours	Mon-Sat 07.00-22.00; Sun: 08.00-21.00
Date of first opening	9th September 1999
Total store area	1,800 m ²
Retail area	1,200 m ² (food & non-food)
Sales area food	55% fresh
Departments	Groceries, Drinks, Fruit vegetables, Dairy, Butcher, Deli, Fish, Non-food, Bakery
Number of checkouts	11
Personnel (full time)	32
Clients per week	11,158
Average sales per week	80,464 euros
Parking lot capacity	190 joint parking places with the Macro store
Description of the concept	Upscale supermarket which offers a wide range of high quality assortment at a good price level. Special focus on fresh departments and wine.
Special features	This store was used as a test store in the past, that is why it has a quite atypical store layout (bakery in the centre and shelves orientated into the shape of a "V").

3- STORE PROFILE:

Globus



– Information on the store

Store format	Hypermarket with a DIY store
Address	Sarska 5/133, Prague 5
Store Manager	Ludek Thomayer
Telephone number	+ 420 251 037 111
Fax number	+ 420 251 037 160
Opening days & hours	Mon-Sun: 08.00-22.00
Date of first opening	27th November.1998
Total store area	20,425 m ²
Retail area	18,608 m ²
Sales area food	4,105 m ²
Number of checkouts	37
Parking lot capacity	1,100 places
Description of the concept	It is the only hypermarket in the Czech Republic with a DIY assortment. It is also the only real one stop concept in the country with the following unique features: Butchery in every store, Food court (Trefferia).

4- Store Profile:

Tesco



– Information on the store

Store format	Hypermarket
Address	Skandinavská 25/144, Prague 5
Store Manager	Jaroslav Janda
Telephone number	+420 251 090 701
Fax number	+ 420 235 517 706
Opening days & hours	Non-stop
Date of first opening	28th October 1998
Latest refurbishment	November 2003
Total store area	15,516 m ²
Retail area	9,500 m ²
Sales area food	4,700 m ²
Departments	20
Number of checkouts	40
Personnel (full time)	290
Clients per week	45,000 customers
Average sales per week	About 1,000,000 euros
Parking lot capacity	approx. 500 places (total with Ikea: 1,100 places)
Comments:	This is the oldest Tesco hypermarket in the Czech Republic , the second best in sales and the highest average basket (about 22 euros/customer). It is rented from Ikea and has a special floor plan and lay-out.

FLP delegates were divided into groups and asked to analyse the four stores through the eyes of one of five fictional Czech consumers. The objective of the store visits was therefore to understand the customer's perspective rather than give a retail executive's view. The five fictional consumers were described as follows:



Customer profiles

The Nostalgic Communists

You feel like you dedicated your life to something which was unjustly swept away. You want the best of both worlds: free schooling and health care, the right to work, early retirement, a low crime rate and low prices, but also no lines, everything in plenitude, independent television, and fresh fruit and vegetables in the shops all year round. You grow vegetables in the garden, have a couple of fruit trees, breed rabbits and have a few hens. Mr Nostalgic Communist knits, sew and crochets.

The Modest Grandmother

You are a kindly old woman. Already retired and lives fairly frugally; you are always prepared to walk half way across town to save a little money. Diligent and hardworking, you tend not to travel, partly due to the expense involved, and your interests lie mainly in your family; children and grandchildren.

Mr. and Mrs. Ordinary

You are the most representative of the average Czech couple, and express the most common opinion and behaviour of the majority of Czech people. Being unadventurous, you dislike taking risks and often deliberate far in advance of making decisions. Your priority is to lead as comfortable and quiet life as possible; your life is stable and you rarely diverge from your routines. You have moderate tastes, dress conservatively, eat unadventurously, and keep yourself entertained by watching TV. You purchase family-sized packs and make use of various discounts. You believe in the traditional values of family life, family togetherness, and care and respect for your elders.

The Emancipated Modern Woman

You manage to have both a career and a family life, enjoying both equally. You are educated, ambitious, elegant, self-confident and optimistic. Your husband and wife share responsibility when it comes to earning money and taking care of their home. "If I can take care of myself, I can take care of my family, too!" You like to look attractive and so you look after yourself and take care of your figure.

The Young

Young both in body and mind. You are active, social and interested in sports, music, computers, films, etc. You perceive risk as an integral part of life and know that the future awaits you so you tend not to think about it. The here and now is more important for you. You generally support environmental issues and recycling.

Store visits missions

Each team was asked to carry out two missions through the eyes of their chosen consumer:

1) Consumer Value Propositions

All delegates were given a five-point card, or pentagon, in order to rate each store according to five key dimensions:

- Price
- Assortment
- Service
- In-store experience
- Communication

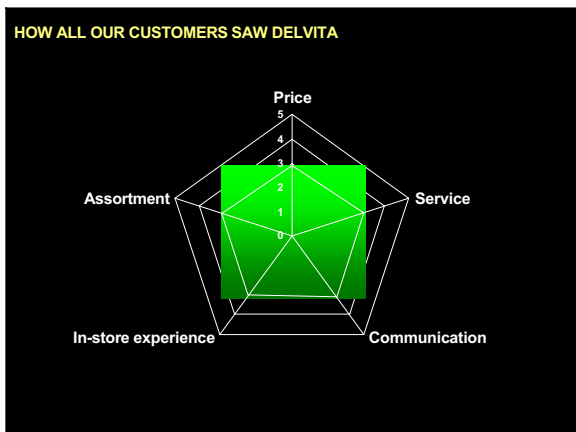
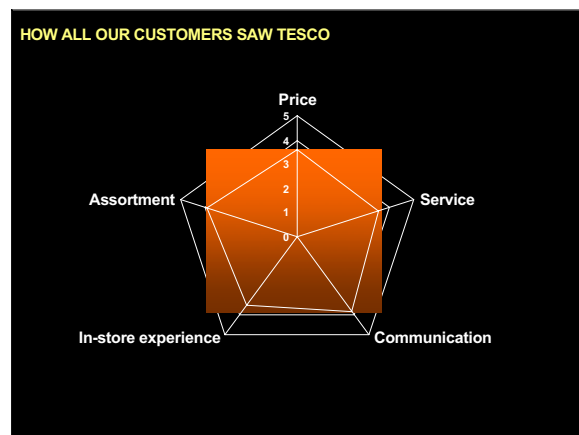
2) Stores and occasions

In the second part of their analysis, the delegate teams were asked to select a best store for their customer for the following two shopping occasions:

- Weekly shop
- Tonight's dinner

Results of delegates' analysis

1) Consumer Value Propositions



2) Stores and occasions



Retail Property Development Study

For their final task, delegates were asked to act as a firm of retail property developers considering investment priorities in and around Prague. The groups were asked to evaluate three investment options:

1. Integrated shopping centre anchored by a hypermarket and with leisure provision (e.g., restaurants, cinemas) under one roof (e.g. Carrefour Stodulky). Typically both in and out of town, majority of access by car. Food shopping skewed to main shop.
Development cost per sq m very high
2. Retail park with separate large format stores (e.g. Zlicin), typically category killers around standalone hypermarkets or cash and carry stores. Typically out of town; majority of access by car. Food shopping skewed to main shop.
Development cost high potentially very high in absolute terms, but lower in terms of cost per sq m.
3. Developing supermarket (e.g. Delvita), depending on land options, standalone unit or in smaller urban shopping centre. Typically located within town; mix of pedestrian, mass transit and car access. Food shopping shared between top up, convenience and main shop.
Low development cost

To help the groups understand better consumer needs, McKinsey profiled two real Czech consumers, Eva and Monika, through filmed interviews. The two women were introduced as follows:

Consumer	Eva	Monika
Age	52	32
Occupation	Cleaning manager	Maternity leave, former PR mnrng
Family	Husband (driver) Grown up children (age 24, 31)	Husband (banker), child (age 1)
Net monthly income	€ 600	€ > 4,000
Lives in...	Small apartment in a panel block of flats in suburbs (living there for 22 years)	Luxury rented apartment outside city centre in a preserved area

The two consumers had contrasting needs and priorities. Price was not an issue for the affluent Monika, but clearly was for Eva even though she was too 'proud' to mention it. The two women made the following general comments about stores:

Eva:

Many hypermarkets make me feel uncomfortable – they are too large, chaotic, and feel unfriendly

Do not make me run kilometers just to find something, make the shop easy to navigate

Staff should be always nearby to help me

Monika:

In an ideal shop, the staff knows me, understands what I need and gives it to me quickly

Use more intuition and common sense when dealing with customers

Internet would be great if I could match the quality I get when shopping myself

Delegates' feedback

The groups found it difficult to recommend any of the three property development options, given growing saturation in the hypermarket segment and expansion from discount formats. Two groups suggested a fourth option of building a shopping centre with a discount store as an anchor; another thought of buying compact sites and selling them on to discount retailers. One group favoured option three – developing a supermarket – as an opportunity for a hypermarket chain to get closer to consumers and focus on fresh. Petr Leidl of McKinsey made a case for both option one – shopping centre with hypermarket anchor – and three – a supermarket. There is still room for integrated hypermarkets, he argued, since existing ones are often crowded. Supermarkets, meanwhile, represent an economic way of exploiting the density of towns in the Czech Republic. However, option two – a retail park – is risky, he warned, since you are not sure to rent all the retail space.

SUMMARY – Tuesday 26th October

Leadership Session – Building the future of the food business
What our times require from businesses and their leaders

CIES produced this leadership session thanks to the sponsorship of

The Coca-Cola Company



The Leadership of the Sector

Communicating the value for the food business

Benoît Cornu, Vice President, Corporate Communication, Casino Group, &
Chairman of The CIES Food Business in Society Task Force

Session moderator René Carayol interviewed Benoît Cornu about the role of the food business in society. Here are some extracts from their conversation:



RC: In 50s America, the largest company was General Motors, which got big through high wages. The largest company today is Wal-Mart, which stands for low wages, low incentives, low health care, low pensions. Is this the future of retail?

BC: It's about reputation: when you talk to Wal-Mart staff they don't see this. Retail provides jobs to many people, including low-skilled people that couldn't find work elsewhere. We can provide more wages for working mothers, who can work in the morning and go home for lunch...In the US, many students start in retail as a part-time job and see it as hard hours. But we're investing in training: Carrefour invests in 4.2 million training hours worldwide.

RC: Tesco's average length of service five years ago was 10.7 years, last year it was 2.8 years (and Tesco is one of the best employers in the UK). So what can the industry do?

BC: It's a big issue. Wal-Mart had a 75% turnover rate five years ago, now it's down to 50%. The main objective is to recruit interesting people by being seen as 'sexy' on the job market. We're doing a lot for society but we're not talking about it. We do a lot on quality, nutrition, safety...Competition is so furious that we never gather to say that our industry is a good industry. We're starting: the Food Business in Society Task Force has representatives from Wal-Mart and Superquinn, for example, and we share the same diagnostic: to improve our image and tell the untold story.

RC: We're seeing increased levels of service but sometimes staff look like workers on an assembly line. How do you keep morale high?

BC: In retail, you see the workers in the store, whereas you don't see the workers in an auto factory. It's a balance between more and more value for customers and training for staff.

RC: Is food retail handling obesity appropriately and sensitively?

BC: It's a complicated issue: a lot of companies want to deal with it by saying their products are healthy. But Casino sells everything - 60,000 SKUs at its hypermarkets. We have to inform customers: it's not our job to tell people not to buy Coke or to buy mineral water. It's our duty to give a choice and inform about that choice. If you label a product correctly you give the customer a choice.

RC: Big players are killing small players: is this good for the industry?

BC: In every industry, you go from a traditional organisation to a modern organisation. In retail, when a retailer goes into a country like the Czech Republic there are a lot of positive impacts. In France, retail created 60,000 jobs in 2001-03. Casino opens one convenience store a day with small independent grocers. So the message [for independent retailers] is, Come with us!

RC: What sort of jobs are you creating?

BC: Every level: with the development of services, we need more qualified people. We are getting management more and more from outside the industry. People are attracted to a long-term business - food is always in demand - and a changing business - you have to adapt formats to consumers, retail is never finished.

- RC: Everyone says retail is detail, it's long hours. How is it attractive?

BC: It's not attractive at the beginning: you compare putting product on shelves or going to work for L'Oréal. So it's hard to attract young people. You get them later on when they see what retail is about.

RC: Suppliers: they can't win on margins...

BC: Operating margins for food retailers are around 5% of sales, compared to 15-20% for Coca-Cola or Danone. We're in a labour-intensive industry: half of our expenses is labour, so margins are low. But if you don't have Coke in the store, you can close it! It's about partnership with suppliers but there's big money, so we fight...Concerning small suppliers, we need them for the differentiation and choice that customers want.

RC: What encouraged you to be positive about the industry?

BC: When I was asked to join a retail company I refused, then was persuaded when I met the people. We need future leaders to be proud of working in retail and to spread the word that food retailing is good for society...The reputation of a food retailer comes not from the company CEO but the CEO of the store [the store manager], because customer contact is in the store.

Questions & Answers

Asked what retail tells you about Europe today, Benoît Cornu warned that standardisation in stores and products could lead to a narrower product range. At the same time, retail faces a massive challenge given that food expenses are declining (now only 15% of household consumption in France) and people are more mobile and open to the world.

The Pirate Inside: building a challenger brand culture in our organisations and ourselves

Adam Morgan, Founder, eatbigfish



Steve Jobs once said, "It's more fun to be a Pirate than to join the Navy", but how can you act as a challenger if you're not the CEO of a company used to differentiation and risk? Adam Morgan gave the example of a marketing director in the 1990s preparing to launch a mobile phone brand that would be fourth into market. The company proposed "Microtel" as the brand name, but the marketing director preferred "Orange" and won the argument by

repeatedly making his case within the company. In other words, it's about people: disciplined brands are built through processes, great brands are built through people.

Just as sea pirates followed strict rules, or "articles", being a constructive pirate in a large organisation is not the same as lawlessness. Adam Morgan explained some the qualities of a constructive pirate:

1. **Denting:** a different kind of respect. "Denters" are people who want to put a dent in the world but are not driven by careerism. They feel employed by the brand, not the company, and are prepared to embrace tension. Toyota's Yoshio Ishizaka for example convinced his company, against the view of the engineers, to launch Lexus not as a single flagship model but as a whole new range of luxury cars; the brand now sells 270,000 cars a year in the US. Denters are not isolationist, they understand hierarchy. Bob Gill of Procter & Gamble succeeded in growing the Pringles brand by establishing a direct line to the president – namely by getting on a recruitment group in contact with the president. Bob Gill also showed how to react to a 'No', seeing it as "a request for more information".
2. **Binding:** a different kind of contract. Lexus again provides an illustration. Toyota decided to establish a "covenant" which was signed by everyone working on the brand. This proved important when, following a first technical problem three months after the launch, Lexus decided to recall all cars. This formed the basis of its reputation and the brand has since overtaken Mercedes and BMW in the US.
3. **Leaning:** a different kind of commitment. Denting leaves you exposed internally and outside the company. Leaning in is about a commitment not in time (i.e. working hard) but in risk (i.e. personal commitment). When jeans brand Howies in the UK was accused by Levi's of imitating its red tab, it saw a fantastic opportunity: it created a humorous kit for retailers to make sure customers knew they were buying Howies and got press exposure by playing David vs. Goliath.
4. **How do you deal with it?** The first year is difficult as people doubt and you don't have the results yet. Among other things, you need to have a clear idea you believe strongly in, an ability to turn 'things being against you' into a source of energy, surround yourself with great people and have absolute confidence in the product.

5. Refusing: a different kind of passion. Passion is a meaningless word used in all mission statements. For pirates, passion against is as important as passion for. At IKEA in the UK, managers at two stores forced the organisation to address the problem of congestion. One manager found a solution for out-of-stocks at point-of-sale: he put red dots on 50 top-selling items and told all staff to replenish these items if they were out of stock. The second manager decided to put up a sign promising free delivery if customers queued for more than 20 minutes.
6. Taking it personally. Most organisations classify their people and then make no real attempt to implement them in working teams. Challengers hinge on people qualities as much as skill bases. They use a cross-functional approach in which a center has support from a “hunting pack” and sponsorship from senior management.

Questions & Answers

Asked if there were pirates in his own organisation, Adam Morgan said that a US colleague was pushing him in the direction of turning their presentations into ‘piracy shows’. On motivating people with different cultures, he argued that you can align people who don’t share a language or culture behind a common goal. It has to be a vision or emotional call beyond issues like pricing or distribution.

Leadership for Growth

Neville Isdell, Chairman & CEO, The Coca-Cola Company

In a video presentation, Neville Isdell shared five thoughts on leadership. Firstly, never forget that creating value begins and ends with serving consumers. Obligations exist to many shareholders but the only way to create value for shareholders and society is to give customers what they want. Secondly, he insisted that you have got to keep your promises: it takes a long time to gain credibility but it can vanish overnight. Third, he argued that no individual or company can succeed over the long term without organisation. Identify the things you can control and that make a difference to consumers, and then devote time and energy on execution. The little things really do matter, he stressed.

Fourthly, tension is a healthy part of every productive organisation. Disagreement and debate, with the interests of the organization foremost in mind, are absolutely essential. A leader is never afraid to hear an alternative different point of view; the people and companies that adapt to change fastest are the ones most open to internal debate. Finally, Neville Isdell urged delegates to have fun. You work in the most exciting industry, you touch consumers every day and you make a difference in the world, he insisted.

Managing a little less ... Leading a little more

René Carayol, Business guru, Broadcaster and Author



What do you stand for as a leader?

Seven years ago, René Carayol was invited to a discussion on ethnic minority relations at Scotland Yard, the headquarters of the Metropolitan Police in London. The then chief officer, Sir Paul Condon, spoke from a lectern, made no eye contact and stated that the Met did not suffer from institutionalised racism. Three years ago, René Carayol received a similar invitation from the current police chief, Sir John Stevens. Unlike his predecessor, he acknowledged that the Met suffers from institutionalised racism and asked the audience for their help in order to make London the safest major city in the world. Out of the two men, who is the leader and who is the manager? You have to know what you stand for as a leader. If you look at the world's leaders, you see two things: self-belief and humility. When they come together, you get something special, like Nelson Mandela.

Taking risks

The human mind prefers never to take risks but risks must be taken because the greatest hazard of life is to risk nothing. Sometimes you have to bet the business: 15 years ago, Fred Goodwin decided to lead the Royal Bank of Scotland into a takeover of Natwest, which was five times the size of RBS. Now the company is the third-largest bank in the UK and the fifth-largest in the world.

The last 40 years have seen more change than the previous 4,000 and change will get even faster in the next 10 years. In Europe, we tend to wait until everything gets bad before reacting but now we have saturation in every industry for the first time. The annual global supply of cars, for example, was 75 million in 2003, compared with global demand of 50 million.

Traditional managers versus contemporary leaders

A McKinsey survey of 20,000 organisations in Europe found that 49% of the workforce does not feel connected. Talent management is thus central to contemporary organisations, which are bold, courageous and bright. Other characteristics of contemporary organisations are collaboration (e.g. Borders' tie-up with Amazon to run its online service), desire (e.g. the Williams sisters' desire to win in tennis versus Tim Henman's gallant failure) and diversity (e.g. Arsenal football club's international talent). In retail, an example of a company getting it right is Tesco, whose leadership is obsessed with the customer; if something is not helping the customer, it is stopped.

Botswana and school assembly

René Carayol shared two stories as examples of leadership. In Botswana, he has participated in a leadership programme with Barclays Bank. The country is quite affluent because of its diamond industry but 40% of the 1.4 million population is HIV-positive; as a result, life expectancy has dropped to 30. Barclays employs 1,500 people in Botswana, 38% of whom are HIV-positive. According to the managers, the biggest challenge is asking themselves every Saturday, what funeral I am going to go to?

Back in London, René Carayol attended his daughter's school assembly. The school had decided to ask parents to speak to pupils about their jobs because its careers service was not working. A surgeon came to speak and she managed to enthral a hall of noisy kids by wearing her uniform and speaking

passionately about cutting up bodies. If you really want to communicate, René Carayol concluded, you have to get people to live it.

“Karaoke Capitalism” or institutionalised imitation

Dr. Kjell A. Nordström, Institute of International Business, Stockholm School of Economics



Kjell Nordström pointed out two phenomena as a backdrop to his analysis. Firstly, just as temperature is the most important thing in nature, the level of information changes everything in society. The Soviet Union doesn't exist anymore because Moscow couldn't control information and therefore the people. In business, Easyjet and Dell have come in by using information processing in a different way. Secondly, we live in an “age of cheap” in which the cheap segment accounts for 50-70% of major industries. The world's biggest publication is free newspaper Metro, with a daily circulation of 16.6 million. Against this background, Kjell Nordström discussed three major trends and their relation to business today.

“Bowling alone”

This is the title of a book by Harvard professor Robert Putnam, who argues that the US is becoming a society of singles marked by divorce. But Europe is the place where we do “bowling alone”. In Stockholm, single people account for 66% of households and food retailer ICA has now opened a format called “Single Market”, offering dating services and small product packs. This phenomenon of singles can be found in other European cities and at different rates all around the world. This is important because if you take away the basic building block of society – the family – everything else will be affected, from housing to social security and packaging sizes. There is no way back, we will move forward into a singles society.

Globalisation

People think of globalisation in terms of global brands like Coke or Nike and a more homogenous world. But this is exactly wrong: globalisation will make the world more heterogeneous and fragmented. We have to go back to medieval times to find the same level of fragmentation. The example of Silicon Valley – where 77% of inhabitants are neither born nor raised in the US – shows how globalisation allows everyone to find their spot. Similarly, in London the City represents a ‘financial valley’, while in Italy the major fashion houses are located side by side in Emilio Romano. In the future, Europe will be made up of 900-1,200 individual regions working in collaboration.

The US

The US is the only one of the three richest countries from 1936 still in the top three today. It has been growing twice as fast as Europe every year for the past 30 years. The US dominates areas such as the Nobel Prize, the Olympics, universities and film, and will continue to dominate for the foreseeable future. Why? The US is not a nation-state like other countries: it is a movement, based on the Constitution, that allows people from elsewhere to become full members of society in two to four years. This compares with 180 years in Finland and never in Japan. As a result, the US mops up all the good people from all around the world. Europe's biggest problem in the years to come will be its inability to integrate people from elsewhere.

“Handicap theory”

There is oversupply in many industries as the flow of information makes it easy to copy. This is what “karaoke capitalism” means: there is no originality. The bad news is that consumers have a lot of choice and are free to go elsewhere. 460,000 scientists, for example, have left Europe for the US over the past 10 years. The command and control approach does not work like even 10 years ago: you need to convince people. Business is now like a bazaar in which consumers can compare companies side by side.

How can companies survive this oversupply? Biology provides two answers: firstly, Darwin’s theory of the survival of the fittest, and secondly the idea of “handicaps”. The latter explains the survival of male peacocks, which seem to contradict the theory of the survival of the fittest. The male peacock attracts females who assume that he must have good genes to be able to survive with his apparent handicaps. In business, one example is BMW, which should not exist with its cost structure but does and is very successful. Once you have built up competitive advantages, you have to translate them into action and create a temporary monopoly, like Nokia, IKEA or Madonna.

In other words, for a successful business it is either a case of “survival of the fittest” and being brutally fit, or “survival of the sexiest” and creating attraction around the product and distribution.

Questions & Answers

On the issue of taking risk, Kjell Nordström argued that we need to reward failure. If we fire people for failing in a project, the message is “do not fail and do not innovate”. There is in fact a global lack of capitalist-owners who are able to take risks. The shareholder capitalist model has driven out innovation, so in the future we will see delisting of companies, listed companies reporting less frequently and consortia of capitalists with family owners. Kjell Nordström also predicted a growing market of relatively poorer, lonely people looking for something to brighten their lives, such as free newspaper Metro. We live in a divided, less egalitarian society, he insisted. A lot of companies were born to satisfy the middle class with a huge volume of standardised products, but there is less and less in the middle.

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Welcome Dinner on Sunday 24th October



Dinner on Monday 25th October



Coffee Breaks



Leadership Session on Tuesday 26th October



Lunch on Monday 25th October

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