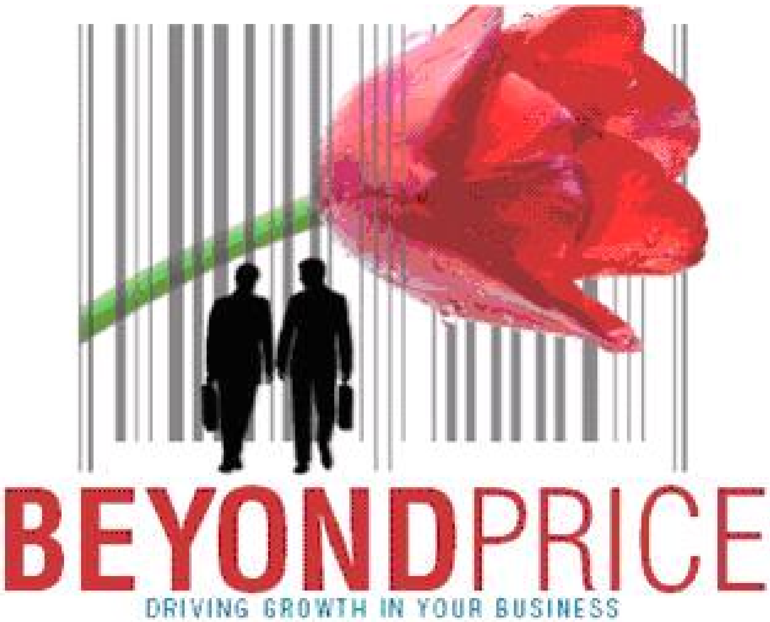
CIES Future Leaders Annual Congress 2006
22nd – 24th October 2006



Executive Summary

THE CIES FLP 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 2007 Annual Congress will take place in London.
2. A strategic **"Breakthrough" Module** usually each Spring exclusively for Committee members.
3. Studies on key industry issues run on member companies for the member companies' benefit.

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.

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.

CIES 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.

With its headquarters in Paris and its regional offices in Washington, D.C. and Singapore, CIES – The Food Business Forum serves its members throughout the world. In China CIES works in partnership with the China Chain Store & Franchise Association and in Japan with the Japan Chain Store Association.

CIES Mission is:
- to provide a platform for knowledge-exchange, thought-leadership and networking and
- to facilitate the development of positions and tools on key strategic and practical issues affecting the food business.

CIES Products include international management programmes, newsletters and studies as well as tailor-made member services.

Each programme is headed by a retailer-led committee or a task force whose role is to identify top-of-mind issues.

Current programmes are The World Food Business Summit, Future Leaders, Marketing, IT, Supply Chain, Food Safety & Food Business *in* Society.

THE CIES FLP COMMITTEE

Richard **FLINT**
Committee Chairman

Gaelo **A. DE LA FUENTE**

Michael **DURACH**

Thomas **GUTBERLET**

Abdurahman **HAMDULAY**

Paul **HAVINGA**

Rhoda **LANE-O'KELLY**

Jorgen **LARSEN**

Gilles **LECLERC**

Alain **PATOUX**

Jack **PESTELLO**

Susana **SALA BOSCH**

Tobias **WASMUHT**

Giuseppe **ZULIANI**

CIES Future Leaders Annual Congress 2006
Executive Summary

Congress Speaker Quotes

"It's better to cut your losses and go on with the things you know well. And move fast."
Jan Bennink, President & CEO, Royal Numico N.V.

"In this industry we are excellent operators. But this will not be enough tomorrow. We need to try more things."
Anders Moberg, President & CEO, Royal Ahold

"Don't deviate from what makes you different."
Adam Balon, Co-founder & Commercial Director, Innocent Drinks

"Never ask the customer what he wants. Stick to your identity."
Philippe Brunelli, Senior Vice President Business Development, Design & Maintenance, Delhaize Belgium

"You cannot be 'half-pregnant'. You are fresh or you aren't fresh."
Paul Bringmann, Managing Director, La Place

"If you're not enjoying yourself, you won't be bringing the best out of you."
Robert Leechman, President, Global Key Customers, The Coca-Cola Company



Congress Conclusions

Driving growth beyond price. Attractive price is a prerequisite in food retail in view of strong competition and a shift in consumer spending away from food at home. But there are lots of opportunities in other areas (e.g. health, convenience), provided that companies identify consumer needs locally and develop concrete benefits that are communicated in a coherent way. While it is easier for smaller companies to focus on their unique identity, big companies can also grow further if they can find a simple, relevant mission. Foodservice offers many lessons for food retail in how to innovate and gain growth from consumers' increasingly lifestyle-based spending.

The Dutch market – quality and price in action. The Netherlands provides a vivid illustration of how food retailers are grappling with quality and price. Market leader Albert Heijn has led a price battle since 2003 to close the gap between perceptions of its quality and its prices. This price battle has pushed down Dutch grocery prices to among the lowest in Europe. At the same time, the extremely dense supermarket sector remains innovative under the influence of both Albert Heijn and very strong regional players. Nevertheless, delegates saw room for stores to develop greater clarity in strategy (e.g. service, private label) and more consistency in execution (e.g. choice of promotions, use of in-store communication).

Leadership lessons. Genuine leaders are capable of turning around struggling businesses and stopping successful ones from becoming complacent. Much of their success depends on the ability to bring together and motivate good teams. This requires spending a lot of time on human resources and in particular knowing how to encourage talented people who will challenge you. In terms of their own motivation, leaders have to be passionate and enjoy their work, or else they won't bring the best out of either themselves or the people around them.






STRATEGIC SESSION

Beyond Price – Driving Growth in your Business

Welcome to the CIES Future Leaders Programme
Paul Havinga, *Format Manager Albert Heijn Convenience Stores and Chairman of CIES FLP Committee*

The Future Leaders Programme is about getting ideas to improve your business and yourself, Paul Havinga explained. It brings together young managers, both retailers and suppliers, who share knowledge. In terms of attendance, the 2006 event gathered 153 participants from 27 countries, 61% of whom were retailers.

Beyond Price: Driving Growth in your Business
Professor David Hughes, *Emeritus Professor of Food Marketing*, Imperial College London

"Increasingly we will value things other than price. The great challenge is to work out *what* people will value and be willing to pay for."

Food is a tough industry with low margins. In the UK, categories like snacks and carbonated drinks are seeing sales decline. In fact, 45% of major grocery categories experienced flat or negative growth in the UK last year. A number of factors are driving down prices in food, including the popularity of lifestyle products – McDonald's would now view the mobile phone as a direct competitor –, the number of brand extensions and me-too products, and retailers' focus on low price and promotions. There is also a general demographic trend of people spending less on food at-home: in the Netherlands this represents only 11% of household income and 7% in the US.

However, although people are spending proportionally less on food, the relative importance of price is also declining. Consumers will increasingly value other elements like quality, health, the environment, ethical sourcing and authenticity; the trick is working out how much extra people will pay for these things. This will require knowing who the shopper is, as demonstrated by Tesco's Clubcard programme which is based on six main customer segments. At the same time, retailers have got to address the lack of service in supermarkets, for example by reviving home delivery.

The Future of Formats: Breaking the rules of the food retailing game

Koen Hazewinkel, *Founder,* Store Europe

"More of the same is not an option. Better but the same is not an option either."

The "me-too" approach needs to be challenged because there is an overabundance of all goods and services. In the US, excess shopping capacity (e.g. 40 giant malls in Washington D.C. alone) has led to the development of the self-storage industry, which is now bigger than the film industry! As a result, being the same is not an option for retail, so companies need to move beyond a mono-focus on price.

An example of being different is Apple, whose iPod player changed the rules of mobile music and caused Sony to lose 16% of its brand value in 2005. In food retail, one example is Edeka. In the German market where discounters have 43% share and most retailers are playing catch-up with Aldi, Edeka has decided to steer away from price with its "Frische Center" format. Its pricing is still competitive (a prerequisite for Germany) but its focus is now on the quality of its fresh food. This has involved for example selling chocolate-tipped strawberries for less than 2 euros a pack, or handmade smoothies for 1.28 euros each. More widely, retailers should look to break rules in three areas:

1. "Alluring and affordable": stores tend to be positioned on price or quality, but you can create stores, whether big or small, that are both attractive and good value, as H&M has done in fashion retail.
2. "Pleasant and plenty": stores should recognise shoppers' core, bulk purchases, for example by offering them reductions or home delivery. This would allow them to concentrate on discovering more pleasurable products.
3. "Authentic and affordable": mass production has removed the authenticity of products, but people want to know about what they are eating (e.g. which farm their meat comes from). However, once more, such an offer has to remain affordable for shoppers.

Theatre, Quality, Abundance and Enthusiasm – Introducing Department Store Food Court "La Place"

Paul Bringmann, *Managing Director*, La Place

"You cannot be 'half-pregnant'. You are fresh or you aren't fresh."

20 years ago, Les Halles ran self-service restaurants with traditional food inside the department stores of parent company Vroom and Dreesman. As the operation was cost-driven, profits were fine but sales were declining. So the company decided to test a new format, La Place, in which everything was remodelled. It didn't ask customers what they wanted – they would have mentioned traditional dishes they knew – but instead looked at "latent needs", recognising that people are willing to try something new at a restaurant.

From 1987, Les Halles renovated its existing outlets – which doubled their sales – and also introduced a series of new concepts: Le Marché (a grocery version of La Place, selling speciality breads); Panini (an Italian sandwich shop); Le Café (in-store coffee shops) and La Place Mangerie (a 300m² restaurant/store with ready to eat/heat meals). La Place also developed events-catering (with all food and drinks prepared on-site), such as for the World Hockey Championships in Utrecht (1.7 million euros in sales for La Place) and the Lowlands music festival in the UK (1 million euros in sales). This expansion has made Les Halles the fifth-largest foodservice operator in the Netherlands and the number two restaurant chain behind McDonald's. Turnover is forecast to reach 155 million euros this year, compared to 32 million euros in 1987.

The key elements of this transformation have included:

- **Quality and experience**: La Place charges 10% more than sister chain Hema, reflecting its focus on freshness and new tastes from world cuisine. This quality positioning corresponds to people's desire for fresh, international food without the need to cook.
- **Employees**: La Place doesn't recruit professionals; instead it looks for people who are interested in people and products, and then trains them at its own training school.
- **Suppliers**: the focus is on long-term relationships with small suppliers (e.g. the only buffalo farm in the Netherlands which supplies La Place's mozzarella). For freshness, deliveries are seven days a week at 7-9am.

Q&A

To motivate staff in relatively low-paid jobs, Les Halles uses a lot of competition, with "stars" given to top performers. The company also offers the possibility for young employees coming from school to become managers quickly. Paul Bringmann in fact spends 40% of his time on training and other people matters.

Consumer Health in Product Innovation
Who is winning & losing in healthy-product innovation?

David Jago, *Director, GNPD Consulting Services*, Mintel

"What consumers will respond to increasingly is the concept of balance."

Health and wellness is currently the most important driver of new product development, having overtaken convenience. According to Mintel's Global New Products Database (GNPD), of the nearly 90,000 new food and drink products launched in 2006 (for 49 countries tracked) 60% carry some kind of health claim. But success is hard to achieve: for every 11 serious concepts, 1.3 are finally launched and just one succeeds initially (with long-term success only becoming clearer from the second year). These "ground rules" are particularly important in health, where consumers are struggling to keep up with manufacturers. David Jago set out some points for companies to consider in developing health-oriented products:

- **Complex, local trends**. There are major contrasts between regions and countries (although we have to be careful about generalisations). Glycemic Index labelling is key in Australia but companies in Europe are struggling to communicate on it. In Asia, there are health claims (e.g. anti-cancer apple flavouring in the Philippines) that would be unimaginable in Europe. There are also major differences between Europe and the US:

Europeans accept "friendly bacteria" in pro-biotic foods but these are only slowing gaining ground in the US; portion-control packs, meanwhile, are popular with Americans but Europeans think they will not taste as good, preferring to eat less of the normal product.

- **Appropriate to the category, brand**. There are inherently healthy categories like yoghurt, juice and crisp bread, but creating health claims for products like chocolate and beer creates "disconnect". There is no point marketing a product as natural if there is also an ingredient that is considered a "no-no" by consumers.
- **Claims need to be proven**. Some claims (e.g. a device within a beverage that dispenses vitamins when the can is opened) seem exaggerated. Whole grains have gained credibility from their inclusion in the US government's food pyramid, although their association with snacks like cookies and chips seems to jar.

Overall, consumers are looking for balance: they want to eat the right things in the right quantities and combine their lifestyle with diet. In the store, they are looking for simplicity in the presentation and communication, and will pay a premium if there is no existing equivalent. And last but not least, consumers want products that taste good.

Formats, Brands, Products and The Price Quality Equation

Retail Case Study – The Results of Repositioning the Delhaize Brand
Philippe Brunelli, *Senior Vice President Business Development, Design & Maintenance,* Delhaize Belgium

"Never ask the customer what he wants. Stick to your identity."

Faced with the arrival of Carrefour in 2000 and the growth of discounters (now 34% of the market), Delhaize has adopted an offensive strategy in Belgium, based on strong differentiation that does not depend only on price. Philippe Brunelli outlined five things this strategy aims to deliver to customers:

1. **To have a large choice**. The assortment is shaped by the principle "Passion for food". Delhaize maintains this food focus by concentrating on the supermarket format only.
2. **To find what they are looking for**. A dense network (777 stores in Belgium) with varying store sizes means that there is always a Delhaize outlet nearby.
3. **To pay a fair price (Every Day Fair Price – EDFP)**. Delhaize's pricing is based on the commitment, "Products for every budget, with quality guaranteed." The retailer follows a price-comparison rule of being a maximum 5% above its competitors on national brands. Its low-price range "365" (about 400 products) competes directly with hard discounters. At the same time, it promises to offer the best price for fresh produce, while giving reductions through its loyalty card.
4. **To feel good in our stores**. This entails having motivated staff and attractive stores, as shown by the wine departments with differentiated layout and expert advice.
5. **To take care of their health**. Food and health are increasingly interlinked and Delhaize has a role to play both through its products (e.g. free-from products, 650 organic products)

and health campaigns with clear messages (e.g. food pyramid, healthy eating plus exercise).

<u>Communication plan 2006</u>
Having first built its strategy, Delhaize has now translated this into communication that: maintains coherence between different banners; makes use of complementary media; and delivers simple messages. The “Live as you wish” mass-media campaign gave key messages like choice and good food, while price is pushed through weekly newspaper advertisements and a special website grouping weekly offers. However, price is not separated from quality, and always forms part of a food idea. Health, meanwhile, is communicated through simple messages (e.g. drink 1.5 litres of water a day, fish once a week) and targeted offers (e.g. 10 offers per week aiming to show that healthy eating is easy).

Q&A
Asked how Delhaize delivers choice in small stores, Philippe Brunelli explained that customers recognise the philosophy (health, quality etc.) even when there are only 3,000 SKUs. Because of the wide range of Delhaize formats they also have a choice of stores close by.

The Great Escape: How to bring growth back into the supermarket
Erik Bras, *Vice President Business Development*, Unilever Netherlands

“I believe you can survive and grow as a big-portfolio, national-brand company.”

After a decade of growth the Dutch fast-moving consumer goods (FMCG) market was hit in 2003 by an economic slowdown and a price war sparked by Ahold. The price war led to 2 billion euros in price cuts for consumers (or a 3.5% fall in overall prices), and by 2005 made the Netherlands the second-cheapest market in Europe after Germany. The question for Unilever was simply, how to survive? Erik Bras explained the three steps in the manufacturer’s strategy.

1. **Foundation for the future**. This involved, firstly, restructuring to get away from a heavy structure (e.g. creation of a single organisation and reduction of staff levels by 40% within a year). Next the company developed a clear vision, “Vitality”, that combines health and taste. To apply this vision, Unilever strengthened its core, since this is where growth starts. The company relaunched classic brands with new recipes and packaging, for example taking out 50,000 kg of sodium or switching from tins to pouches for soup.

2. **Enhance distinctiveness of brands with “exclusivity”**. Examples include: Dove health & beauty products sold only in certain channels (e.g. drugstores); exclusive “Blue Band” healthy-eating bread for Ahold’s Albert Heijn chain; and a partnership with a heart charity that led to some Unilever products being reimbursed by health insurers.

3. **Launch innovations based on trends in the market**. In line with consumer interest in health and with its own vitality positioning, Unilever developed a vegetable and fruit drink called “Vie” under its Knorr brand. In addition, you have to support brands:

Unilever’s media investments in the Netherlands grew by 27% in 2005, against just 4% for the market as a whole.

For the year to date, Unilever has recorded 6% growth, showing that a big company can grow, Erik Bras concluded.

Q&A
In foodservice, Unilever brands suffered from the downturn in this channel resulting from the wider economic slowdown in the Netherlands. Regarding private label, Unilever is taking some brands down in price, especially in big segments that are close to commoditisation. In terms of price competition, Erik Bras acknowledged that Unilever got to the lowest point before reacting, noting that big companies are afraid to lose what they have. Regarding chilled food, he argued that national brands are very slow to develop in areas where they don’t have the technology. They are catching up now, although retailers are wary of manufacturers gaining ground in the category.

Standing Out Innocently
Adam Balon, *Co-founder & Commercial Director*, Innocent Drinks

“Don’t deviate from what makes you different.”

Adam Balon founded Innocent Drinks with two friends seven and a half years ago. Determined to set up their own business, they had settled on the idea of selling fruit smoothies – drinks made from crushed fruit – as an easy way to feel better. After studying fruit varieties and recipes, they did a successful test launch at a jazz festival. Having sold 16 bottles to a local store on their first day of business proper, they are now expecting to generate sales of 80 million pounds in 2006, all with very small capital. Adam Balon shared six lessons learned:

1. **Keep the main thing the main thing**. In other words, don’t deviate from what makes you different. At the start, people suggested different production techniques for Innocent (e.g. using concentrates, additives), but the founders insisted on using fruit only like in the kitchen. This was incredibly valuable as it set Innocent apart.
2. **Be consistent**. Innocent uses the same tone in its communication. Without major advertising, the company exploits its product labels with varying messages, and has come up with original company vehicles (i.e. a “dancing grass van” for tastings and a “cow van” for sales).
3. **Take care of details**. Lots of people get the supply and the product right, so details can make you stand out. Innocent for example puts “Enjoy by” instead of “Use by” on the top of its bottles, and adds jokes to its product labels.
4. **Be responsible**. This became a priority as the company grew. Innocent’s idea is to leave the world a little better than how it found it. This is easy regarding the basic product – fruit – but not so easy when you look at all the impacts the company has (environment, employees, communities etc.). The Innocent Foundation, which receives 10% of the company’s profits, now runs projects in sourcing countries.
5. **It’s about people**. Motivated people make an enormous difference and having them is also about little details. At Innocent, everyone attends Monday morning meetings (either

in person or by phone); there are 1,000 pound scholarships for any "life-affirming" project; and a 2,000 pound baby bonus. Above all, Innocent spends time recruiting the right person.

6. **Open up, listen up**. People want to like companies and speak to them. One UK company lists the home phone numbers of its three top executives, which sends out a really good signal. At Innocent, the customer helpline ("the banana phone") is always answered by a person.

Q&A

To sustain growth against increasing competition, product is central, Adam Balon argued. This means going back down the supply chain to growers. Afterwards it's about communication and your people. In terms of product range, Innocent sees the opportunity to stretch its brand given that natural products are a massive societal trend, but first it wants to develop its smoothies across Europe. Regarding a future takeover, Adam Balon explained that the founders are committed to staying together until 2010 and will then review the situation.

If you meet the expectations of women you exceed the expectations of men

Maria Widell Christensen, Cycle Planning Coordinator, Volvo Car Corporation

---

"'Premium' women are the most demanding customers Volvo has."

Volvo's Your Concept Car (YCC) is the only car to have been fully developed by women. The car maker saw the potential of women: they represent over 50% of its customers in the US, while in Europe this proportion is 14% but growing. The thesis underlying the project was, "If you meet the expectations of women you exceed the expectations of men." This is because Volvo found that women in the premium segment are the most demanding customers it has. Specifically, women customers were not satisfied in terms of easiness of parking, visibility, handling and manoeuvrability, getting in/out of the car, the noise of the engine, and interior convenience of the vehicle. In response, Volvo developed the YCC, which was unveiled to great success at the 2004 Geneva car show. The prototype's features include:

- **Getting in and out**. The enlarged "gull-wing" doors open vertically to offer more room. To avoid searching for keys, an automatic opening system is activated when you are next to the vehicle. Inside, the front seat moves back automatically to give you extra space for sitting down and then readjusts to give the best driving position.
- **Storage**. To remove the inconvenience of putting your bag on the back seat or giving it to the front passenger, YCC has created more storage space by removing the gear stick (the gears are integrated into the steering wheel). This has allowed Volvo to add a storage area for a bag or laptop, as well as a cooler.
- **Materials**. The YCC offers a more home-like feel with materials like laminated oak for the dashboard, as well as detachable rugs and seat covers that allow you to choose the colour and fabric you want.
- **Maintenance**. To avoid opening the bonnet for changing the water, Volvo integrated the water feeder into the petrol cap, which now has easy-to-use sliding openings. The exterior paint, meanwhile, is easy-clean and the tyres can run for 80km when flat to give you the

time to reach a garage. Moreover, an auto-servicing system will alert your garage to book an appointment if something needs repairing.
- **Parking**. A Volvo test found that half of men and women had problems parallel-parking. Women, moreover, are faced with the challenge of parking in various locations because they do more shopping and collecting of kids. The YCC provides a park-assist system that first indicates if a gap is big enough, and then does the steering for you, leaving you to control the peddles.

Q&A
The YCC has not had as much impact on Volvo's design as hoped for, Maria Widell Christensen explained, and she continues to lobby internally in what is a very traditional industry. At the same time, concept cars are not intended for production, but provide elements for future designs.

OPERATIONAL SESSION

The Dutch Retail Scene- An introduction to Food Retailing in the Netherlands
Steven Vossepoel, *Partner*, McKinsey & Company, Amsterdam
David Sinclair, *Partner*, McKinsey & Company, London

The Dutch grocery market is led by four groups: clear market leader Ahold (Albert Heijn and C1000); Laurus (Super de Boer although no longer Edah and Konmar); Aldi; and Koopconsult (including the Dirk van den Broek and Digros chains). Among the peculiarities of the Dutch market, there are no hypermarkets (although supermarkets are getting bigger, with 715m² on average in 2005 versus 495m² in 1995); in-store theatre is minimal; and private label is very developed, with Albert Heijn especially innovative.

A price war was launched in 2003 by Albert Heijn in response to negative perceptions of its prices, which contrasted with its high ratings on service. A shopper survey at the end of 2005 showed that Albert Heijn's price rating had improved, while Aldi and Lidl's had gone down. However, the regional chains remained strong on both price and service in the eyes of shoppers.

To highlight consumer trends and the diversity of shopper profiles, McKinsey showed **video interviews conducted with Dutch consumers in their homes**:

- **"Retirees"**: this retired couple alternated between cooking and eating out. They shop five times a week for food, including at small shops close by, and prefer brands.
- **"Young family"**: this family with two small children always eat together at home, with the wife cooking traditional food (i.e. meat, vegetables, potatoes). They shop twice a week,

mostly at Lidl and Dirk van den Broek because they are cheapest. But their favourite store is Albert Heijn, especially for its own brand which they find as good as A-brands.

- **“Established family”**: this family also eats together with the wife doing the cooking. They are very focused on freshness (e.g. they like to know where their meat comes from), although they sometimes shop at discounters to save money.
- **“New arrivals”**: this immigrant couple shops every day, usually at Dirk van den Broek because it is cheap and good quality, as well as at the greengrocer.
- **“Young professionals”**: this couple eats easy-to-prepare French and Italian food, with the man doing the cooking as his partner works later. They mostly shop at an Albert Heijn close by, but also use local shops for bread and meat, and further-away stores for lower prices on basics like pasta and milk.

Store Visits Missions and Feedback

The FLP Store Visits Programme covered four Dutch supermarkets:

ALBERT HEIJN XL

With more than 700 stores and a strong customer offer in assortment, quality and value, Albert Heijn is the leading supermarket operator in The Netherlands. The company operates stores across a number of formats, has a strong private label strategy and is very innovative when it comes to assortment, marketing and format.

C1000

C1000 is the number two chain in the Dutch supermarket sector in terms of market share and number of stores. The success of the C1000 stores is based on their ‘no-nonsense’ philosophy and value proposition: fair prices with good quality and a good assortment.

HOOGVLIET

Hoogvliet is a family owned company with about 50 stores. They have been building on low prices, service and innovation. Hoogvliet stores are leading in the smart use of technologies and innovations to make shopping more convenient, faster and cheaper for customers.

JUMBO

This family owned supermarket chain is expanding rapidly and has been chosen many times by Dutch consumers as their favourite supermarket. Its success is based on attractive, “discount” prices in combination with high service and a broad assortment.

FLP delegates were divided into groups and asked to carry out three missions:

1) **<u>Consumer Value Propositions</u>**
All delegates were given a five-point card, or pentagram, in order to rate each store according to five key dimensions:

- Price
- Assortment
- Service
- In-store experience
- Convenience

2) Stores and occasions
For the second part of their analysis, the delegate teams were each allocated one of the four stores and asked to identify the strengths and weaknesses of their store, together with suggestions for reinforcing strengths and addressing weaknesses. The teams mentioned the following points:

Albert Heijn XL
The assortment was the main strength, with a wide and attractive selection of food, especially at the service counters (e.g. cheese). The major weakness was price communication, which was not clear. Suggestions included running product-focused promotions to fit in with the quality positioning, and changing the shelf layout to draw attention to the value-core-premium structure of the assortment.

C1000
Strengths included the good assortment and use of technology. But the communication was not clear and service was weak. Improvements could be made by adding product tasting and refocusing the technology (flat-screens, vending machines) on products, promotions and overall convenience.

Hoogvliet
The main negative was the assortment, which suffered from clutter, confusing communication and a lack of private label. This could be alleviated by editing the range to better target the customer. The key strength was the service and this could be built on with more personalised or community touches (e.g. staff names on badges, special events).

Jumbo
Strengths were everyday low price and wide assortment, while weaknesses included supplier-driven price communication and lack of service (despite high staff levels). Improvements could be made by making the layout and assortment structure clearer, and using customer-based communication.



3) Case Study: Rethinking a Key Category – Mayonnaise

In the third part of the analysis, the groups came up with ideas for improving the mayonnaise category at their allocated store. Mayonnaise was chosen because it is a popular everyday product in the Netherlands that continues to enjoy sales growth.

The basic brief was to slim down the category to make it convenient and differentiated, thereby driving growth for the future. To build the assortment, the groups worked with a planogram consisting of a flipchart (representing the shelves) and cards that acted as facings for each product. The teams started with the existing mayonnaise assortment for their store (with the number of facings for each product corresponding to sales volume). They had the option of adding brands not currently offered, but were also encouraged to rationalise SKUs unless there was a very good reason for including them.



The ideas put forward for each store included:

Albert Heijn XL

- Vertical structuring of assortment to give an overview of AH's good-better-best offer.
- For convenience, cut number of lines from 36 to 25 and sell only smaller sizes (i.e. less than 500ml).

C1000

- Use a vertical value structure focused on the main brand and main private label (premium private label rejected because the focus is on price and speed).
- Simplify the assortment by removing salad dressings from the mayonnaise shelf, and by cutting out price-oriented brands.
- In packaging, test tubes (in addition to standard jars) to offer convenience.

Hoogvliet

- Focus on private label by having one private label item and one main brand per variety, cutting out the other brands.
- Add space on the top shelf for specialities (e.g. kids' varieties, special occasions).

Jumbo

- Eliminate some brands to focus on key A-brands.
- Add more private label (price appeal), as well as speciality products (for assortment strength) through single facings on the top shelf.

Summing up the analysis, Steven Vossepoel of McKinsey noted that the case study had thrown up different merchandising principles. A key point of discussion was how to structure the shelf, i.e. vertically or horizontally, and then whether by value, variety or pack size. Within the chosen structure, the main brand should be placed 45° below eye-level and be "over-faced" in order to attract the customer's attention. The main private label should be just to the right of the main brand, while at the bottom the entry-price private label should be over-faced to have visibility. However, stores should break any of these principles if the result is visually unappealing!

LEADERSHIP SESSION
What are food retail companies really looking for?

Insights from Today's CEO's

CIES brings you this leadership session thanks to the sponsorship of

Introduction by session moderator
René Carayol, *Business Guru, Author and Broadcaster*

"It's your attitude that determines your altitude."

Leadership is not about status or job title, it's an attitude, René Carayol insisted. As a leader you have to be optimistic; if you are pessimistic, how are your people going to feel?

Anders Moberg, *President & CEO,* Royal Ahold

"In this industry we are excellent operators. But this will not be enough tomorrow. We need to try more things."

After working for two "growing" companies – IKEA and Home Depot – Anders Moberg now heads a "restructuring" company in Ahold. The company has been through a couple of tough years following its 2003 crisis, divesting a lot and dealing with various legal issues.

So where is the food business going? Compared to other retail sectors, food retail is very good operationally but not at experimenting. In other words, we need to be provocative and try more things. Anders Moberg set out some ideas for the future:

- **Core values and capabilities**: throughout his career, Anders Moberg has based his strategy on being close the customer and then applying this consumer insight everyday in capabilities like sourcing and category management. At Ahold, one example has been the price reductions at Albert Heijn. In general, companies have got to simplify because they make it difficult for shoppers to make decisions. Simplicity is in fact an important reason for the success of discounters.
- **Alternatives to stores**: the young generation is adopting internet as a shopping medium and Amazon is now looking at food. Hypermarkets, which had a very strong price and cost advantage in the past, are now challenged by real-estate prices, changing consumer trends, and competitors like category killers.
- **Retailers and suppliers**: roles have changed because the store is now a brand. Retailers and suppliers will have to collaborate to be close to the consumer and more efficient.

- **Consumer communication**: a key area will be health and nutrition, where we will see information in the store and on products.
- **Industry organisations**: the value of these organisations is not precise enough, so companies need to challenge them to adapt for the future.

Q&A
Among his lessons as a CEO, Anders Moberg underlined the need for teamwork. In particular, you should promote people who speak up and challenge you. Asked what it is like not working for the market leader any more, he stressed his ambitions for Ahold – no one wants to be number four or five, he said. It is a huge challenge to take risks when a business is struggling, especially if it is a public company, so that is when you need real leaders, he concluded.

Robert Leechman, *President, Global Key Customers*, The Coca-Cola Company

"If you're not enjoying yourself, you won't be bringing the best out of you."

Leadership is not management, Robert Leechman underlined. Whereas 15-20 years ago he was very focused on man-management and the results of that year, more recently he has focused on the idea of where he wants to be in three years. He summarised key stages in his "leadership journey":

- **School**: he attended a grammar school with a very competitive atmosphere in which he thrived.
- **University**: he developed his social skills and independent thinking, finding out what he *didn't* want to be.
- **First job**: in eight years at Mars UK, during which time he rose to be national sales manager, he learned about negotiation, influencing and communication.
- **Food broker**: seeing dollar signs, he joined a start-up as commercial director. But he soon clashed with the founder, who sacked him after finding out Leechman was in touch with head hunters. Family was then very important in helping him get over this low point.
- **Coca-Cola in the Gulf**: Leechman joined Coca-Cola in 1988. Two years later he decided to go international by moving to the Gulf region, where Coke was in the position of challenger after being boycotted for the previous 25 years. The post taught him man-management, cultural awareness and, for the first time, thinking beyond one year ahead.
- **Sydney Olympics**: this three-year mission as general manager involved building up a team from zero to 150 staff and then back to zero again, learning about long-term planning and organisational change, as well as life balance thanks to the absence of travel.
- **President Central & Eastern Europe**: this leadership role was what he was building to and it allowed him to bring all his experience together.
- **New role**: Leechman's current position is a new role for Coca-Cola (i.e. working with major retailers globally rather than locally), so he is acting as a "change agent" in the company.

Robert Leechman summarised his learnings with a six-point checklist for future leaders:

1. *Are you self-aware?* E.g. compensate weaknesses with strong people around you.
2. *Do you enjoy being with people* and do they enjoy being with you?
3. *Do you accept constructive feedback?* Leechman for example has used an external coach for the past eight years.

4. *Do you surround yourself with skilled people who challenge you?*
5. *Are you ambitious?* Does your partner share and support your vision?
6. *Is your cup always half full?* There are a lot of cynics in business, so your cup has to be half full.

Q&A
Robert Leechman said his legacy at Coca-Cola so far would be that of building very strong teams and then seeing the most talented people progress. In terms of frustrations with people, he noted that in Central Europe it is difficult to get people to contribute, as opposed to just listening. Regarding the Gulf, he stressed the need to go into an entrenched market with humility and a long-term strategy. Coke first thought Arab consumers would simply come over, but forgot it was known as "Red Pepsi" in the region, and that Pepsi was a tremendous competitor that had to be respected. More widely, Coca-Cola got into complacency, which current CEO Neville Isdell challenged by getting top executives to look at what the company was doing well and not well.

Kenneth Bengtsson, *President & CEO*, ICA

"Concepts can be copied: it's all about implementation, people and leadership."

Kenneth Bengtsson's whole career has been in retail, starting with when he worked as a bagger at the age of 13. After becoming an ICA store manager at the age of 19, he became a store owner at 25, running an outlet with 30 million euros in turnover. After a number of years as a store owner within the ICA cooperative in Sweden, he sold his stores in 1999 in order to join the group's head office as director of hypermarkets. He then became CEO of ICA Handlarnas, the holding company of the store owners, before being appointed CEO of the entire ICA AB group in 2001.

ICA, today the market leader in Sweden and a significant player in Norway and the Baltic countries, dates back to 1917. Its development has accelerated rapidly in recent years, with something like five big ventures every year compared to one every five years in the past. For example, since 1990, ICA has launched a customer card, gone international, allied with Ahold and opened a bank. The group's model combines entrepreneurship with central organisation, or local diversity and centralised efficiency.

In terms of leadership, Kenneth Bengtsson's mentor has been Blev Verklig Het, a 90-year-old who was active in ICA for 50 years. Blev Verklig Het stresses that business is all about people, and Kenneth Bengtsson has tried to follow this by always looking at the store from a customer point of view and by involving staff as much as possible. Concepts can be copied, so it's all about implementation, leadership and people, he stressed. To maintain its strength in leadership, ICA has run a successful trainee programme for 10 years, with 58 out of 73 participants still with the company. More recently, ICA has launched a "management networking" programme to nurture more leaders and ideas. The company had seen the need for new talent in 2004 when it carried out a management reshuffle and realised that the same names kept coming up. The management networking notably uses the Future Leaders Programme, with 22 managers (including 12 women) attending the Amsterdam event.

Q&A
Kenneth Bengtsson explained that the last management networking group, in 2005, had worked on a business development plan that was presented to the board. In terms of leadership style, he described himself as hands-on but diplomatic – a necessary attribute in a complex, diversified organisation. Regarding the difference between running a store and a company, he noted that store owners are focused on sales and the invoices they have to pay. Although he is no longer as close to the store, Kenneth Bengtsson argued that this previous experience means he never loses sight of money and the need to get a return.

Jan Bennink, President & CEO, Royal Numico N.V

"It's better to cut your losses and go on with the things you know well. And move fast."

<u>The Numico growth story</u>

When Jan Bennink took over in 2002, Numico looked great. Having faced flat sales in its traditional baby-food and clinical-nutrition markets, the company had expanded into adjacent categories, investing 4 billion euros in acquisitions in vitamin and consumer goods segments. But its results and share price soon started sliding.

Jan Bennink's response started with defining what the company stands for. After spending a lot of time thinking, he came up with the mission, to be a "High-growth, high-margin specialised nutrition company". An evaluation of the businesses showed that only baby food and clinical nutrition fitted the mission, so Numico sold everything else, i.e. 60% of the entire company. Jan Bennink felt comfortable with these dramatic divestitures because Numico's expertise and passion were in baby food and clinical nutrition.

Internally, Jan Bennink also made dramatic organisational changes: within 11 months he changed completely the executive board, which wasn't challenging him; internationalised the previously all-Dutch supervisory board; replaced 40% of the top 50 managers just below the executive board, and 60% of the top 200. He also added more managers to the two remaining divisions (i.e. having two general managers per country), accepting that focus is more expensive than synergy-oriented diversification. All in all, he spent more time on people than anything else in his first year.

This focused strategy paid off: at both group and division level, sales growth has reached double-digits (+12.4% for the group in the first half of 2006, above its objective of 9-11%). At the same time, margins have increased and working capital has been reduced. As a result, Numico's market capitalisation has been multiplied by 3.5 since the end of 2002.

<u>Key learnings</u>
1. *People are the most important part.* There is no room for cynics: if they don't believe, you have to get them out. You then have to make the "believers" your key priority by spending 30-40% of your time on them (e.g. at least four hours allocated in board meetings, tracking top managers).

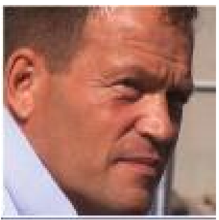
2. *Focus, focus, focus*. Private equity firms are successful because they make their investment target their sole focus. In big companies, divisions get less attention, so it's good to be small and specialised.
3. *Speed is essential*. You have to make decisions fast, even if you will make mistakes. This requires a sense of urgency, which is critical so that Numico doesn't ease off now it is enjoying 10% growth.
4. *Treat your stakeholders equally*. Jan Bennink made a deal with the employees' works council that he would share everything them if they respect confidentiality – and there has been just one leak so far.
5. *Be transparent and talkative*. You have got to say things a 100,000 times – especially key messages like "high-growth, high-margin" – and be upfront, like with the works council.
6. *Promise and deliver*. To deliver clear targets you have to take risks, but people will appreciate it. This includes going against conventional wisdom: Jan Bennink for example defended negative equity – arguing that you live from cash flow, not money on paper – and this has gone from being a controversy in the press to a business case study.
7. *Simplify the issues, set expectations*. In addition to the mission, Numico has given each year a theme (e.g. 2005 as "The Year of Momentum") and created a five-pronged plan.
8. *Have some fun*. You have to have fun and make fun of yourself, which lets people think they can make mistakes. Numico's executive board put on fancy dress for their first meeting with the top 200 managers!

Q&A

Jan Bennink emphasised his open relationship with his chairman, who gave him full support when there were rumours of moves against Bennink during the restructuring. As an example of his leadership style, he said he tries to get people he fires to leave the office with a smile – i.e. by showing the kind of toughness you appreciate in your parents. In terms of workload, he doesn't work weekends anymore but thinks about work 24/7. Great ideas don't come by blocking time, he insisted, but while walking or listening to other people. Regarding his sector, he stressed that he loves brands and people, whereas the detail of retail doesn't make him tick.

Keynote Closing Address – Leading on the edge
Robert Swan, OBE - Polar Explorer and EU Ambassador for the Environment

"If we are not leading ourselves as best we can, how can we expect people to take us seriously?"



At the age of 11, inspired by a film on Antarctica, Robert Swan decided to walk to the South Pole. At the age of 20, he then decided to put his plan into practice and set about raising the $5 million needed for the expedition. He managed to raise the funds after seven years, helped by French explorer Jacques Cousteau, who agreed to lend his name to the expedition on the condition that Swan and his team show leadership by removing their rubbish afterwards.

For the mission, Swan assembled a five-man team who were chosen for their diversity because, if everyone is thinking the same, you're not strong, he stressed. The three team members who actually walked from the base camp to the South Pole carried no communication equipment out of respect for the original polar explorers. To survive, they respected a rule based on trust: they always followed unconditionally the route chosen by the person in front. They reached the South Pole after 70 days and 1,600 km, but were immediately confronted with the news that the ship due to collect them and their rubbish had sunk! Nonetheless, Swan stuck to his commitment to clear up the rubbish: he flew to New Zealand to get a new ship and returned a year later. This environmental commitment was reinforced by the discovery that the team members had lost their skin and had their eyes burned because they had passed under the hole in the ozone layer.

Swan's next expedition was to the North Pole as part of a group of eight people from seven countries. While trust was the crucial element in the South Pole mission, patience was essential at the North Pole as Swan was leading inexperienced volunteers. The team faced failure as the Arctic ice started to melt in April – four months early – but they managed to reach the Pole by making use of the 24-hour sunlight in order to do 40-hour days. Swan thereby became the first person to have walked to both the North and South Pole.

He then attended the Earth Summit in Rio de Janeiro in 1992, committing himself to carrying out global and local missions. His global mission involved removing 1,000 tons of solid waste from a beach in Antarctica, which led to the return of penguins after 40 years. The local mission, meanwhile, focused on Africa and AIDS education. Swan's boat – called "2041", the year in which the future of Antarctica will be decided – was loaded on a lorry and went around South Africa, finishing at Johannesburg to coincide with the 2002 World Summit on Sustainable Development. Swan's next step was to circumnavigate Africa in his boat to raise awareness about AIDS and the environment, bringing with him the first Africans to sail all the way around their own continent.

Robert Swan continues to go back to Antarctica and, in his next project, an education centre will be launched there in February 2007. The centre will be powered by renewable energy and equipped with cameras in order to show Antarctica to kids via internet. 70% of the world's fresh water and 90% of the world's ice are located there, he underlined, so we have to protect Antarctica.

A special thank you to our FLP sponsors

















SPONSORS

CIES- The Food Business Forum wishes to thank the following companies for their generous contribution:

Delegate Lunch
Sunday 22nd October

Welcome Dinner
Sunday 22nd October

Store Visits Lunch
Monday 23rd October

Delegate Dinner
Monday 23rd October

Leadership Session
Tuesday 24th October

Coffee Breaks

Mark your Diary for the year 2007

CIES FUTURE LEADERS ANNUAL CONGRESS 2007
21st – 23rd OCTOBER 2007, LONDON

REGISTER NOW
WWW.CIESFLP.COM

CIES
THE FOOD BUSINESS FORUM