



EXECUTIVE SUMMARY

CONFLICTING STRATEGIES FOR PROFITABLE GROWTH

UNDERSTANDING THE STRATEGIC DILEMMAS

30TH November – 1ST DECEMBER 2004 • LONDON, UK

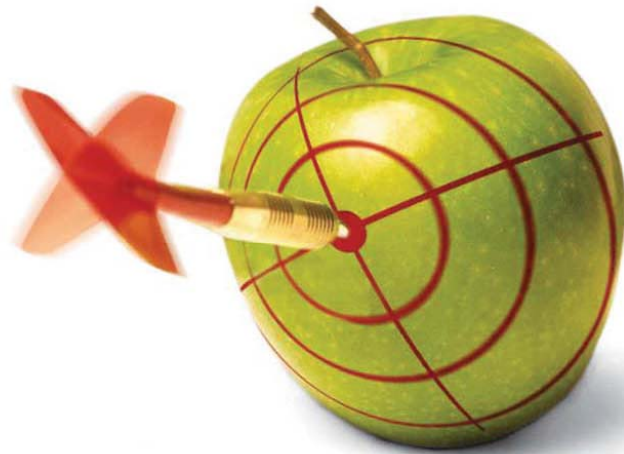
The CIES Marketing Forum 2004

The Global Food Retail Marketing Forum



CIES MARKETING FORUM 2005

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15th & 16th November 2005
Paris, France

THE CIES MARKETING FORUM 2004



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TABLE OF CONTENTS

PAGE NO.

▪ WHAT IS CIES – THE FOOD BUSINESS FORUM?	4
▪ CIES INTERNATIONAL COMMITTEE ON MARKETING	5
▪ EXECUTIVE SUMMARY	6
▪ TOP OF MIND VOTING RESULTS	26
▪ SPONSORS	27
▪ STORE TOUR PROGRAMME	28
▪ KEY CONFERENCE QUOTES FROM DELEGATES	30



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, Singapore and Tokyo, CIES – The Food Business Forum serves its members throughout the world.

CIES Mission is:

- To provide a neutral 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 industry.

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.

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CIES INTERNATIONAL COMMITTEE ON MARKETING

- ✚ **Chairman:** Mark PRICE, Director of Selling & Marketing, *WAITROSE LTD.*, United Kingdom
- ✚ Jonathan ACKERMAN, Marketing Director, *PICK'N PAY RETAILERS*, South Africa
- ✚ Philippe BRUNELLI, Senior Vice President Marketing & Technical, *DELHAIZE LE LION*, Belgium
- ✚ Art DROGUE, Senior Vice President, Sales & Customer Development, *UNILEVER BESTFOODS*, USA
- ✚ Arne ERIKSEN, Director, Research & Development, *NORGESGRUPPEN-MENY AS*, Norway
- ✚ Paulo GOELZER, President IGA Coca-Cola Institute, Vice President International, *IGA, INC.*, USA
- ✚ Joseph GRIESHABER, Group Vice President Perishables Merchandising & Procurement, *The KROGER Co.*, USA
- ✚ Pascal HOUSSIN, Senior Vice President, Sales and Customer Development, *KRAFT FOODS INTERNATIONAL*, United Kingdom
- ✚ Sharon JESKE, Senior Manager, Specialised Management Programmes, *CIES - THE FOOD BUSINESS FORUM*
- ✚ Ingrid JONANSSON BLANK, Executive Vice President Retail, *ICA*, Sweden
- ✚ Julie LYLE, Vice President Corporate Marketing, *WAL-MART STORES Inc.*, USA
- ✚ Harvey MC COY, Senior Vice President Merchandising Services, *H.E. BUTT GROCERY COMPANY*, USA
- ✚ Paula MURPHY, Commercial Manager, *SUPERQUINN*, Ireland
- ✚ André TORDJMAN, Marketing Director, *AUCHAN*, France*
- ✚ Jean-Jacques VANDENHEEDE, Vice President Europe Retailer Services, *ACNIELSEN*, Belgium
- ✚ Sander VAN DER LAAN, Senior Vice President Marketing, Format & Merchandising, *ALBERT HEIJN BV*, The Netherlands

With special thanks to Tessa Chamberlain, General Manager - Corporate Marketing, Pick'n Pay Retailers, South Africa, for her contribution.

** Incoming Committee Chairman as of January 2005*

COMMITTEE MISSION STATEMENT

- To identify innovative brand and store marketing strategies and practices,
- To track successful new marketing and merchandising processes,
- To provide a forum for senior management in Sales, Marketing, Buying and Merchandising Directors in the retail sector, as well as Sales/Marketing directors and senior operational directors in the FMCG industry.





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EXECUTIVE SUMMARY

KEY CONFERENCE QUOTES FROM SPEAKERS

*"Copying will never be a successful basis for retailing."
Sir Stuart Hampson, Chairman, The John Lewis Partnership, United Kingdom*

*"Nutrition is part of Western European consumers' DNA."
Martin Glenn, President, PepsiCo UK & Ireland, PepsiCo, United Kingdom*

*"Conventional supermarkets and hypermarkets are losing or have lost the price perception battle against the discount operators, just like the traditional service outlets lost it to them 30 to 40 years ago."
Jean-Jacques Vandenheede, Vice President Europe Retailer Services, ACNielsen, Belgium*

*"The biggest loyalty programme in the world is EDLP."
Clive Humby, Chairman and Co-founder, dunnhumby, United Kingdom*

*"When the regional manager has to introduce himself to the store manager, what is that all about?"
Sean Summers, CEO, Pick 'n Pay Retailers, South Africa*

*"Competitors can copy product and processes, but it takes a long time to mimic corporate style and the way you do things."
Philip Williamson, Chief Executive, Nationwide Building Society, United Kingdom*

EXECUTIVE SUMMARY

Tuesday 31st November 2004

Welcome to the CIES Marketing Forum

Mark Price, Director of Selling and Marketing, Waitrose, United Kingdom

Mark Price shared some attendance figures for the Marketing Forum: **206 delegates from 33 countries, of which 42% were retailers**. He summarised the Marketing Forum in terms of three parts: 'seeing' through the store visits programme (attended by 60% of delegates); 'listening' through the speaker presentations; and interactivity through the Q&A and debate sessions.



Introduction to Conflicting Strategies for Profitable Growth

Charles Waldman, Senior Affiliate Professor of Marketing, INSEAD, France



Charles Waldman offered a 'roadmap' for the conference and its theme of "Conflicting Strategies for Profitable Growth". On day one, the sessions would consider: the tyranny of quarterly results versus long-term vision; business profitability versus social responsibility; capitalising on entrepreneurship versus strategic control; and consumer price sensitivity versus consumers' growing egos. On day two, the sessions would raise the issues of: people as the number one priority versus investment in consumers' delight; national brand power versus store brands; and finally price versus value versus quality in the communication mix.

OPENING KEYNOTE ADDRESS

Profit or Profitability - Creating a Sustainable Business

Sir Stuart Hampson, Chairman, The John Lewis Partnership, United Kingdom

The UK retail business is littered with "legacy brands" that are losing their way and struggling to find sustainable success, Sir Stuart Hampson argued. He considered the interplay of short-term of profit and long-term profitability from John Lewis' perspective. The group has just celebrated 75 years as an employee-owned trust. It now has 62,000 staff and has seen sales grow 35% over the past five years. But people don't come into its stores because it is a cooperative. No brand has a right to survival and John Lewis is competing in the same sector for the same customers as City-listed companies.



Sir Stuart set out three important questions for long-term success:

Has the business built sustainable relationships with employees, suppliers and customers? You can't be the customer's favourite retailer if you're not the staff's favourite retailer. For people in retail, a share in profits really makes a difference to the offer. As an example, staff at John Lewis' Edinburgh store proposed replacing lunch breaks with a morning and afternoon break as a solution to understaffing during the busy lunchtime period - a more radical step than management would have proposed. With suppliers, John Lewis and sister chain Waitrose get a great competitive advantage from long-term relationships, since they allow them to meet customer expectations in areas like animal welfare and the environment. The group has built similar long-term relationships with customers because of its clear commitment to price ("Never knowingly undersold") and service.

Does the business have a vision of what makes it different?

Copying will never be a successful basis for retailing. We need to differentiate given consumer choice.

Do the management and owners have the courage to focus on the first two questions in the face of short-term pressures?

Successful companies like Tesco, Wal-Mart and Ikea are praised for their stable management. But struggling companies often blame 'lifers' who have been too long in the company. A sense of urgency is important but you have got to accept that things don't happen overnight.

Sir Stuart Hampson illustrated these points with three examples from his chairmanship of John Lewis. Firstly, when he took up the post he was asked when he would get rid of Waitrose, since it could not survive in the supermarket sector. He saw that Waitrose had fallen behind on technology but had a great niche and needed time, love and capital. The roll of management, he argued, is to spot dead wood but also to see the potential for revival. It is uncertain whether Waitrose would exist today if it was owned by a conventional company.

The second example is John Lewis' Peter Jones department store in Sloane Square, London. This old store required a £100 million refurbishment, raising the question of whether it should be sold. But John Lewis saw that the potential of this wealthy area justified the short-term investment and disruption. Thirdly, John Lewis has invested in internet as an essential adjunct to its stores. Its acquisition of buy.com in the UK - which became John Lewis Direct - and 40% of Ocado - to supply Waitrose products - led to a £30 million hit on its profits. But if it had sold the ventures this would have been a long-term disaster for its growth potential.

Q&A

Asked about how the partnership works, Sir Stuart Hampson explained that all 62,000 staff are partners and get the same percentage of salary as their share of profits; last year, this was 12% of salary. On integration between John Lewis and Waitrose, he noted that the department store business is very different from supermarkets, so you can compromise each one if you amalgamate. But the group recognised a crossover and started coordinating buying for certain products. Waitrose Food & Home takes this a step further and has potential for areas without enough demand for a full department store. Asked how John Lewis secures the right staff, he stressed its reputation as a good place to work. Once they are recruited, it is about engaging staff by sharing profits, knowledge and decision-making.

CONFLICTING STRATEGIES FOR PROFITABLE GROWTH

Shrinking Stomachs & Growing Profits... Obesity Dilemma Facing the Food Industry

Martin Glenn, President, PepsiCo UK & Ireland, PepsiCo, United Kingdom

The UK context

The UK is a test market for obesity concerns. It has unique circumstances, notably a very strong media and a media-sensitive government. There have been two years of media onslaught, during which time there has been more press coverage of obesity than of the Iraq War. Activists have won public support with great line like "Supersize Me". McDonald's has been the lightning rod of the situation, seeing a sharp drop in profit in the UK. The pressure groups have thus set the agenda, leading to a sensationalist report from a parliamentary committee.



Simplistic analysis

Critics say that it is very simple: if the food industry chose to sell less, we would solve the obesity issue. But the obesity problem is much more of a conundrum than a simple 'either/or' dilemma. Calorie consumption has in fact gone down over the last 30 years (-750 calories), according to UK government figures, but calorie expenditure has gone down by more (-800 calories). No one food company is individually accountable but we are all responsible, that is why it is a really difficult issue. Examples of simplistic analysis include banning advertising to children (this has produced no change in obesity levels in Sweden and Quebec) and 'traffic lights' on product labels (is olive oil a red?), which takes the view that there are bad foods, rather than bad diets.

What should our strategy be?

Food companies should focus on consumers, not NGOs, and be pro-active, not reactive. If you make concessions to NGOs, they will demand more. In any case, consumers are not at the same place: the real issue for them is nutrition, not obesity. Indeed, nutrition is part of Western European consumers' DNA now. They are looking for help and expect a brand to be both a "navigator" and "friend". The demise of Sunny Delight illustrates the importance of trust, since consumers felt cheated by a juice drink that was associated with pure juices.

Nutrition represents an opportunity, not a cost. Trading up is how to reconcile declining food expenditure. Food has never been so cheap and now accounts for only 9% of disposable income in the UK. But the opportunity is to add value through ingredients, convenience and portion sizing. This will bring a shift from a small increase in sales to a big change. Some examples from PepsiCo illustrate this: its Tropicana juice brand has recorded CAGR of over 15%, while its Quaker breakfast oats brand has achieved over 20%. McDonald's is in fact now selling Tropicana and Quaker Oatsmeal – the first time it has sold Pepsi products – as part of its reinvented breakfast menu.

Summing up, Martin Glenn warned that obesity "is coming to a store and a brand near you". Doing nothing or burying your head in the sand is not an option: we have got to be the navigator and friend of consumers, he argued.

Q&A

On the impact of Atkins trends in the UK, he noted that diets don't work, which is why there is a new one every 10 minutes. You have got to build exercise into lifestyle, he insisted. Concerning traffic lights on packages, he argued that the government was confusing obesity and food content. However, he said he would compromise on nutrition information on the front of packs, with the key requirement being calorie information.

THE RETAILER'S VIEW - BETTER RECIPES FOR GENERATING GROWTH

Corporate-owned vs. franchisee-owned - What are the Benefits and Trade-offs?

Paulo Goelzer Ph.D., President IGA - Coca-Cola Institute, VP International, IGA, Inc., USA
Willy Van Daele, Vice President Wholesale, Delhaize BegeLux, Belgium

Paulo Goelzer explained why franchising represents a growth strategy for retailers. Advantages include achieving more rapid market penetration at a lower capital cost, and using motivated owner/operators who 'have their skin in the game'. Franchising is also relevant for suppliers looking to secure a distribution channel, as shown by Pennzoil's acquisition of Jiffy Lube.

So what is franchising? Broadly, franchising happens when someone develops a business model and sells the rights to operate it to another entrepreneur. The exact definition depends on local legislation but in practice franchising follows one of two types: the business format, in which the way you sell is determined by a complex organisation (e.g. restaurants and hotels); and the product distribution format, which primarily involves the secondary distribution of a franchised product (e.g. petrol stations and car dealers). In contrast to franchising, licensing gives permission to sell something but does not authorise the licensor to control the method of operation. As a result, all franchises are licences but not all licenses are franchises.



In rolling out franchises, there are also different approaches. There are direct franchises, which are signed either on a store-by-store basis or through an area development agreement (i.e. a franchisee agrees to develop X stores over a specified period). There are also master franchises, or sub-franchising, which are similar to area development agreements, except that master franchisees tend to recruit third parties to execute store agreements.

The impact of franchising is shown by economic figures. In the US, a 2003 study estimated that franchised businesses accounted for nearly 10% of private-sector output and one in seven of private-sector jobs. The success of franchising is recognised by franchisees: in the UK, nearly 90% of those surveyed agreed that franchising allowed individuals to develop a business more quickly and over 70% agreed that it was less risky than starting a wholly independent business. For international growth, franchising also offers a way for companies to enter new markets where there is a 'culture gap'.

Summing up, Paulo Goelzer stressed that franchising is not a command approach. It is a different animal that you have got to get to know. However, there is no universal model, whether corporate-owned, franchises or licences. You have to choose what is right for you at this time, he argued.



Willy Van Daele described how Delhaize combines both corporate-owned and non-corporate-owned stores. One of the retailer's key objectives is to operate as an international group of local companies. This means meeting local consumer needs and giving a high level of responsibility to local management, while at the same time maximising synergies through the group structure.

In Belgium, Delhaize operates 728 stores, of which 370 are "affiliated stores" that are owned and operated by independents. Delhaize uses the term affiliated because it does not take a percentage of sales like in a franchise, but generates income by acting as a wholesaler to the independent-owned stores. These outlets represent 32% of Delhaize's Belgian business and cover supermarkets and convenience stores.

So why work with affiliates? Following a Belgian law in the 1970s restricting supermarket openings, Delhaize needed an alternative development strategy. Affiliates represented an opportunity for quick growth without investment in land. In particular, they brought increased purchasing power for Delhaize and a lower break-even point for the independents. The latter also helped local integration, since no one knows customers better than the local independent retailer who grew up in the area.

The conditions for success are financial commitment from the independents and a modern wholesale approach from the group retailer. In other words, the banner has to provide not only products but a full concept, with store designs, IT and other support services. The risks for the retailer include a loss of control, which can lead to a loss of quality and sales. To minimise such risks, the group has to explain the concept as a very strong brand. Delhaize has also approached its affiliates as partners and since 2003 has shared its company strategy with them.

Conflicting Strategies for Sustainability

Sean Summers, CEO, Pick 'n Pay Retailers, South Africa



Sean Summers focused on the issue of people versus profits. For Pick 'n Pay, it is absolutely people first, he argued, the profits will take care of themselves. Lots of organisations talk about people in their annual reports but what is the real truth? And how many of you truly believe in putting more into your people than you want to get out?, he insisted. As an example, Pick 'n Pay has taken 1,700 staff to the Disney Institute in Florida for training, at a huge expense to the company.

Pick 'n Pay experienced a sea-change in 1994 when its stores closed for four weeks during a national strike. The retailer made sweeping management changes as it was clear that it had lost the hearts and minds of staff. It gave a simple brief to the marketing department: internalise what we do. Pick 'n Pay's philosophy is based on doing the right thing, rather than doing things right, and staff understand this. The company has never cut jobs, although people have left because of their performance levels, including a director who did not respect the company values. Pick 'n Pay believes that the checkout operator is as important as the chief executive, since they are each trying to make their world better.

The retailer has managed to get the labour union on board, preferring to have organised labour rather than disorganised labour. It told the union that it needed to grow and that it would have to cut staff levels. But it proposed as a solution to transfer staff to new positions in new stores.

Marketers have a huge responsibility, he concluded, to use internal marketing so that every person in the organisation is a fan or a crazy person.

Debate Session on The Retailer's View - Better Recipes for Generating Growth

Speakers from the morning session

Charles Waldman reiterated the importance of internal marketing, which should come before external marketing. A quarterly newsletter is inadequate as internal communication, since it is post-event news. **Sean Summers** noted that marketers are looked on as the 'spin doctors' of the company, but you can't internally market something that isn't there. He cited AIDS as one of the biggest examples of authenticity at Pick 'n Pay: the retailer has trained 1,300 "peer educators" and made anti-retroviral drugs available to staff.



On maintaining company values in franchises, **Willy Van Daele** explained that Delhaize runs special training for franchises and gives them access to all corporate training. **Paulo Goelzer** also stressed the importance of attitude, quoting the Chinese proverb, "A man without a smile should not open a shop". **Sean Summers** warned that you have to be very careful in choosing franchise partners. It is the easiest thing to grow a franchise business fast, but if you make a mistake it's messy.

INTERPRETING CONSUMER TRENDS & DEVELOPMENTS

The Schizophrenic Shopper Reality

Jean-Jacques Vandenheede, Vice President Europe Retailer Services, ACNielsen, Belgium



Everybody is looking for growth but it is not easy. Market share is being eroded and price wars are being launched. In contrast, discount retailers have no growth concerns: they have recorded annual sales growth of 7% in Europe since 1991, increasing their total sales by over €50 billion to €94 billion and their market share to 16%. Although the situation is still very different in each country, discounters have enjoyed strong growth in many markets.

This discount growth has no correlation to the economic climate, inflation, lower purchasing power or unemployment. Jean-Jacques Vandenheede outlined three main reasons to explain discount success:

The Schizophrenic shopper/consumer

A growing number of people do everything and its opposite within the same hour. An example is the person who takes a budget flight to Milan and then buys a luxury bag and eats in an expensive restaurant. The country where hard discount has the highest market share, Germany, is also the country where the most money is spent on holidays. In other words, FMCG is seen as a source of savings for other priorities. Conventional supermarkets and hypermarkets are losing or have lost the price perception battle against the discount operators. But this is not simply because of price comparisons: discounters are seen by consumers as stores “where I spend less”, because there is less choice and less temptation.

1. Trust

In Germany, the ‘social barrier’ affecting discount has gone. A recent ACNielsen survey found that 58% of shoppers never went to a discounter in the past but now buy there regularly. In a European shopper study, Aldi got the highest rating for brand strength, ahead of Albert Heijn and Tesco. Shoppers have thus moved from buying brands and promotions through private label to discount products.

2. Discount and convenience

Consumers are shifting from the weekly shopping trip – the model invented for their parents and grandparents – to fragmented buying. Convenience has thus become a key factor for shoppers across Europe and hard discount has established a monopoly position in low-price proximity. Aldi is on every city corner in Germany and is within 3km of nearly 90% of the population; overall, the country has one hard discount store per 9,600 inhabitants. European comparisons show that the growth of hard discount accelerates once it reaches a certain level of store density and market share.

We are thus going back full circle, Jean-Jacques Vandenheede concluded. We went from traditional stores to supermarkets and now we’re going back to proximity. The shopper wants discount not only on price but on temptation, time and complexity. Hypermarkets and supermarkets need to redefine their status in the marketplace from price advantage to a unique and differentiated strategy. Manufacturers, meanwhile, need to rethink their innovation to cover not just premium niches but also the core of categories.

Leveraging Customer Insights - The CIES Marketing Study

Armelle Carminati, Managing Partner, Retail Europe, Accenture, France

Bridget Jackson, Global Lead for Sales & Marketing in Consumer Goods & Retail, Accenture, United Kingdom

Armelle Carminati and Bridget Jackson presented the results of The CIES Marketing Study – “Leveraging customer insight” – conducted by Accenture. The study was based on responses from 59 retailers in 23 countries covering a range of company sizes and store formats; it thus offers a broad retail perspective.

The survey showed that the large majority of retailers collect customer data about purchasing behaviour, geographics and demographics. This is done most commonly using loyalty cards (70% of retailers), followed by customer surveys (68%). Most retailers thus know the what, where and who behind their sales. But this is not enough, **Armelle Carminati** argued: there is also the question of the ‘why’ of purchasing.



In this respect there are significant differences between retailers. In the survey, 31% of retailers (“Insight Leaders”) claimed to gather a large amount of data and to create a large amount of insight, compared to 44% who gather a lot of data but create little insight (“Data Gatherers”), and 25% who gather little data at all (“Data Laggards”). The Insight Leaders notably collect data much more often on promotional responses, buyer values and customer profitability. And these leaders are getting the results: while 92% of retailers claim that their loyalty programme has had a positive effect on the bottom line, Insight Leaders report greater increases in basket size and purchase frequency.

These Insight Leaders tend to use customer data for a wider range of marketing actions. While most retailers use data for communicating, segmenting and targeting customers, and spotting trends and disruptions, Insight Leaders are more likely to leverage data for shelf and store layout or pricing strategy. Overall, these retailers understand the link between buyer values and marketing actions.



Bridget Jackson summarised the responses of retailers concerning the role of suppliers. Most retailers are ready to share data with their suppliers, although for a price or in exchange for services. At the same time, most retailers would like more support from suppliers in analysing data, particularly concerning assortment. Combining data enables greater shopper insight and improvements in the marketing mix. This will for example support local clusters in the assortment and allow every SKU to be justified, putting SKUs in the middle under scrutiny. Such collaboration based on complementary sets of data

promises value creation for all, rather than diminishing returns or a squeeze on suppliers.

How Can Retailers Use Consumer Information?

Clive Humby, Chairman and Co-founder, dunnhumby, United Kingdom



Retail marketing is at a crossroads, Clive Humby argued. You can either continue down the old road of selling as much of a product as possible, or attempt the step change of engaging with customers. CRM doesn’t work because consumers don’t want relationships with companies: they want quick, easy answers to problems they have. This changed context is being driven by empowered consumers and “superbrand” retailers. The consumer is choosing to pay a

premium for things that really matter to them and commodity prices for things that don’t. Retailers, meanwhile, have used their perception as the consumer champion on price to extend their brands into finance, telecoms and non-food. Dunnhumby thus sees Tesco as more of a medium than a retailer.

The Tesco case study

Clubcard has been a fundamental building block of Tesco’s business. Launched in 1995, it now has 10 million members, whose data is analysed every week by Dunnhumby. Broadly, Clubcard has enabled Tesco to know its customers and tailor its offer according to individual needs. The first stage in the process is developing customer insight from customer data using segmentation.

Tesco does not segment customers by 'attitudes', which are vague, but according to 'lifestyles' based on what they buy and how. For example, a customer who buys one item when there is a 'buy one get one free' offer on the product could be someone who is loyal to the brand or who lacks storage space. So the data is positive in that it contributes to the profile of the customer, rather than just showing that the promotion was bad.

Tesco has given £1 billion in rewards so far to Clubcard holders (equivalent to 1% of purchases) but the key is targeting behaviours. This is shown by the fact that over 90% of rewards vouchers are redeemed, while there is over 30% participation in product coupons. The quarterly Clubcard Statement has thus become the backbone of the relationship between Tesco and its customers.

But the real prize is supplier collaboration, Clive Humby insisted. Segmentation allows Tesco to build up a complete picture of customer behaviour. The retailer can then connect suppliers to consumers in three ways: through "The Shop", a web-based tool providing insights based on 104 weeks of rolling data; through analysis from an expert team; and through communications targeting segments or individual consumers, supported by response measures.

Clubcard has also generated integrated customer media, in which direct, promotional, mass and web channels are linked. E-marketing, for example, has proved a high-impact and cost-effective channel, given that Tesco has over 500,000 online shoppers, while over 40% of all its customers have email.

Debate Session on Leveraging Customer Insights

Speakers from the Session joined by:

Mark Price, Director of Selling and Marketing, Waitrose, United Kingdom

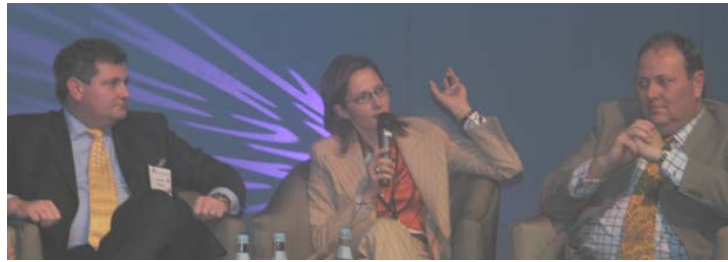


Charles Waldman stressed the need for retailers and suppliers to share expertise in order to get a complete picture of the market. Consumers have different mindsets at different times – they can be quality on one product and value on another – so you have got to develop segmentation. The middle of the market is being eaten in a volume and margin battle. But you cannot be a 10,000m² hard discounter, so you have to choose other elements, he argued. El Corte Ingles provides an example of how you use customer insights to create new markets: the Spanish retailer saw that there was a market for selling PCs to people who are afraid of technology, and it is now the number one PC retailer in Spain.

Clive Humby underlined that loyalty was not only about loyalty cards: the biggest loyalty programme in the world is EDLP, he insisted. On the returns generated by Clubcard, he noted that Tesco has given away £1 billion in rewards while profits have increased from £330 million to an expected £2 billion this year. He stressed that you get five to eight times the benefit for retail decision-making, compared to just communication. This allows Tesco to make its stores more meaningful for customers, which is very important since it wants to be a 'broad church'.

This ability to cover the whole range of customer needs means that the strategy of retailers like Waitrose and Aldi, which cover only part of the customer basket, is not sustainable, he argued.

Mark Price contended that this was too simplistic, since all stores have fewer loyal shoppers today: Tesco and Sainsbury for example have around 60% of primary shoppers, compared to 72-73% a few years ago. Waitrose's percentage of primary shoppers has increased because it is



very focused and the market has polarised. He explained that Waitrose collects data but that a card would be too expensive to operate. Data is useful to prove a theory, he added, but won't bring inspiration or insight into the future. In any case, customers still cite the four P's of product, price, place and promotion as the main determinants of store choice.

PEOPLE - HOW DO THEY RANK IN YOUR PRIORITIES?

Pride in People

Philip Williamson, Chief Executive, Nationwide Building Society, United Kingdom

Nationwide is a mutual building society, which means that it is owned by its 11 million customers in the UK. In addition to its ownership structure, the company is different in its products - for example by offering the best deals on mortgages to all customers, not just new ones. But it is also different in its approach to employees, as shown by the fact that it is the only financial services company to be awarded "champion status" under the UK's Investor in People scheme.



Employee commitment is important because it drives customer satisfaction and therefore business performance. Philip Williamson explained four key drivers behind this commitment:

- *Pay*: people say that employees don't leave because of pay but this is an illusion: it is very important. Nationwide offers flexible remuneration through vouchers and childcare, gives the same corporate bonus to all and uses performance reviews to ensure people know they are getting the best deal.
- *Length of service*: this starts with recruitment for attitude and behaviour, followed by training for skills. In terms of career development, Nationwide offers opportunities for career breaks and flexible retirement.
- *Resource management*: the company has developed branch capacity models to cope with demand; there are designated 'storm troopers' who support branches when staff are very busy.
- *Values*: in 2002, Nationwide launched PRIDE, an acronym based on five values: Putting members first, Rising to the challenge; Inspiring confidence; Delivering best value; Exceeding expectations. The aim is to get people emotionally engaged with the Nationwide brand. With 15 million transactions every month, there is a big opportunity for Nationwide

to affect the lives of customers. 250 PRIDE ambassadors are chosen each year to help get the message across in the organisation. At the same time, Philip Williamson parted with three senior colleagues who didn't agree with the initiative.

The effectiveness of PRIDE is demonstrated in employee satisfaction: Nationwide has a 79% satisfaction rate, much higher than other financial services companies. It was also ranked 18th in the *Sunday Times* Top 100 Employers survey, making it the top financial services company and one of only two large companies in the ranking. In terms of business results, Nationwide recorded a 30% increase in interim profit to £244.9 million, supported by over 200,000 new members.

Summing up, Philip Williamson argued that a winning culture is a combination of things, including products and processes. But committed employees really enable you to make the difference. Competitors can copy product and processes, but it takes a long time to mimic corporate style and the way you do things, he insisted.

Managing People the Innocent Way

Adam Balon, Co-founder & Commercial Director, Innocent Drinks, United Kingdom



After working in corporate jobs for five years, Adam Balon and two university friends decided to set up their own business. They came up with the idea of selling fruit smoothies – drinks made from crushed fruit – after realising that the long hours and bad diets of modern life make it difficult to do yourself good. After becoming “fruit geeks” and studying fruit varieties and recipes, they did a successful test launch at a jazz festival. The three founders then built the brand, helped by distinctive communication such as the use of “cow vans” as sales vehicles and the creation of a free music festival, “Fruitstock”.

Innocent Drinks has a five-pronged business strategy, including wonderful drinks, robust supply, a strong brand and solid customer relations. The other key part is having a great, happy team.

Adam Balon explained the two main requirements involved in building this team:

Hire talented people

- *Challenge the need:* work out if you really need to hire the person, or if the role couldn't be outsourced or done by IT.
- *Develop a clear job spec:* this is an easy step to skip; writing down formally will show where the person fits in.
- *Target your search:* Innocent puts job advertisements on its product labels in order to target its customers.
- *Rigorous interviews:* this requires preparation but is worth it since you push the person to show their talent.
- *Make sure offerees accept:* to avoid the waste of having a job offer turned down after the interview process, Innocent sends a hand-written letter with its job offers.

Growing and developing our team

- *Clarity of purpose*: it is hard to put your heart into a job if you don't know what the business' vision is and how you are helping that vision in your role. Innocent's vision, "Europe's favourite little juice company", expresses the idea of being engaged with customers and having the attitude (not the size) of a small company. The purpose of each person is then clarified by clear and precise job descriptions.
- *Feedback & mentoring*: Innocent organises three-monthly "chats", six-monthly reviews and annual assessments. This leads to flexibility in staff careers: one person in accounting enjoyed so much being compeer at Innocent's music festival that he applied to be communication manager.
- *Skills and experience*: training covers a wide variety of skills and methods. The four main dimensions are: generic skills, specific knowledge, peer-group learning (half-day sessions off-site), and MIMBA (Mini Innocent MBA), which involves sessions with professors and entrepreneurs. Innocent ensures that training starts on a person's first day, since there is nothing worst than waiting for something to do.
- *Perfect knowledge*: every Monday, the whole company attends a 30 minute update. There is also a "Wonder Wall" in the middle of the office indicating all projects going on in the business.
- *Team motivation*: there are "hard things" that you have to get right, such as hours, leave and pay, but the "soft things" make a difference because they show you care. At Innocent, these include: a £1,000 scholarship open to anyone with a personal project and voted on by staff; a £2,000 bonus for someone who has a baby; an annual snowboarding and nature weekend; and involvement in social projects through the Innocent Foundation.

Innocent's results show that this people strategy is working. The company has continued to almost double in size every year, with 2004 sales expected to reach £17 million. It is now clearly the UK market leader in smoothies and has been named Employer of the Year 2004 at the National Business Awards. These results demonstrate that there is no limit to what a motivated team can do, Adam Balon concluded.

Debate session on People – How Do They Rank in Your Priorities?

Speakers from the Session

On the issue of growing bigger, **Adam Balon** argued that there isn't a dichotomy between big and values. In fact, Innocent's culture has become stronger, with new people reinforcing its values. He explained that after the UK market, the company had two ways to keep growing: international growth and new products. Since it can't do both well at the same time, Innocent decided to focus on international growth, establishing an operation in France in order to target continental Europe. Asked how Innocent convinced supermarkets to list its brand, he stressed the company's realistic strategy: it introduced itself to the supermarkets by saying it wasn't ready but would keep in touch. It then grew the business through the independent trade before Waitrose became the first supermarket to take on the brand.

On getting buy-in across the organisation, **Philip Williamson** argued that it starts with ensuring the senior team is committed. You



then have to work very hard at the communication process: at Nationwide, the senior team spends at least one day a week out in the company. Commitment to people values is also reinforced by the fact that they are an integral part of everyone's performance agreement. Looking ahead, he noted that Pride seems to be working but that the company might need a hard-nosed financial director in a few years. In the lifecycle of any business you need change, he stressed.

THE IDEAL MIX BETWEEN STORE BRANDS AND NATIONAL BRANDS?

The Store Brands Recipe

Peter Thomas, Director of International Marketing, Daymon Worldwide, USA

Growth in grocery retailing is coming from two directions: value/price leaders such as Aldi and premium leaders like Whole Foods. In other words, a 'well curve' is replacing the 'bell curve' as the middle is squeezed. But it is not happening just in grocery, it's the way customers are interacting with companies. In this context, can own brands drive growth?



The obvious reasons for own brands are profitability, differentiation and store loyalty. But traditional valuation methods of own brands – incremental profitability and penetration growth – do not indicate their ability to drive growth. A more relevant own-brand valuation model links the incremental net profitability of own brands with the incremental profits of national brands from loyal own-brand customers. This

model then allows retailers to see what the correct balance is between own brands and national brands.

Peter Thomas described three characteristics of own brand programmes that drive growth and value:

- 1) **Strategic alignment.** Own brands have to be aligned with overall strategy, such as price leadership or differentiation. Loblaw in Canada provides an example of consistency between own brand and retail strategy: the company has used own brands to enjoy higher profitability and thereby support lower prices on national brands. This strategy has successfully reduced the scope for Wal-Mart to enter the grocery market with EDLP.
- 2) **Brand focus.** The retailer has to adapt its competencies to become a brand manager. An example is HEB in the US, which has used own brands to compete successfully with Wal-Mart and other larger chains. Specifically, the company has differentiated itself by developing a wide range of products to meet the cultural requirements and needs of local communities.
- 3) **Consumer-centric.** Once you know who you are as a brand, you have to create a product to meet consumer requirements. Like HEB, Aeon in Japan has focused on meeting cultural needs. It launched a premium ice-cream that stresses seasonality – an important part of Japanese tradition – in order to differentiate itself from market leader Haagen-Dazs.

Debate session on the Ideal Mix between Store Brands and National Brands

Peter Thomas joined by:

Florence Da Costa, Commercial & Marketing Director, Novandie, France

Olav Thorstad, Marketing Director, Meny (Norgesgruppen), Norway

André Tordjman, Marketing Director, Auchan, France

Olav Thorstad explained the triple role of private label for Meny: providing premium in order to build loyalty; offering better price value than national brands; and fighting hard discount. On growth opportunities for food retailers, **Peter Thomas** argued that it depends on the go-to-market strategy. If you are competing on price, for example, you better have the best price, since in any market there is only one retailer defined by price.



On the role of national brands, **Florence Da Costa** stressed that they have got to develop innovation and create new markets. If they are doing their job, there is room for everyone, including private label. In a context of decreasing margins, Novandie has reduced costs in its private label production, while continuing R&D and innovation in its brand business.

André Tordjman explained how retailer brands have been in conflict with national brands for the last three decades. In the 80s, retailers were not making enough money on national brands, so own brands were a way to make money. In the 90s, retailers were making more money and started to develop own brands to support the overall brand of the store. But today and tomorrow, the rule will be indirect competition because of hard discount. Non-brand products are now the starting price for consumers and hypermarkets have lost the price advantage to hard discount. So retailer brands are still in conflict with national brands but now also face competition from hard discount. There is a lot of work to do, he noted, because the customer doesn't see hypermarkets' first-price ranges as the same as hard discount brands. In addition, the same consumers are doing different things in the same shopping trip, so you have to bring solutions and offer low price, he argued.



Charles Waldman insisted that you cannot avoid being low-price on basics or you will be murdered. It's a tough issue, he acknowledged, since customers expect more for less at the value end. Brand power involves three factors: innovation and renovation, followed by marketing aggressiveness and then consistency across stores and time. The biggest killers of brands are not private label, he contended, but brands managers, since they each try and make their mark



during an 18 month period, meaning that there is no consistency in the brand. As an example of a successful and unsuccessful brand strategy, he cited Nestle and United Biscuits in the UK: the first has invested heavily in innovation and refused to develop private label, reinforcing its market leadership in soluble coffee; the second invested less in innovation, more in private label and has since been broken up.

THE UK RETAIL SCENE - UNDERSTANDING THE STRATEGIC DILEMMAS

Mike Dennis, Head of UK Food and General Retail, Crédit Agricole Indosuez Cheuvreux Securities, United Kingdom

Background

The chances of failure are high at the moment in the UK's food retail sector. There will be low inflation for the foreseeable future and falling petrol prices next year will expose underlying sales. This price deflation will be reinforced by both Morrison, as it converts Safeway stores, and Sainsbury, as it goes for a sales-led recovery. 2005 will thus be 'dog eat dog'.

The right business model

In saturated markets, only low cost and focused operators win. In the UK, Tesco, Asda and Morrison (excluding Safeway) have demonstrated the virtuous cycle of efficient and low-cost operators being able to buy land and develop operations. As a result, EDLC (Every Day Low Cost) helps to overcome the deflation cycle in product/category. However, Asda's flat market-share growth shows that pure EDLP does not work against Tesco, which can match prices.



Company strategies

- **Tesco's** success has been based on its inclusive, customer-focused business. It appeals to the widest audience through its formats, ranges and pricing, and has access to 11-12% of household spend. The retailer has enjoyed highest growth from its Extra hypermarkets and Express convenience stores, reflecting consumer demand for both a bigger choice and top-ups. In non-food, Tesco has recorded above-market growth, led by its Cherokee brand, while in services it has rolled out efficient operations in finance, telecoms and legal advice. Internationally, the retailer has focused on Asia and Europe and is getting its profits up after early investments. Looking ahead, issues for Tesco will include store cannibalisation, supplier unwillingness to harmonise pricing across Europe, and the risk of arrogance and losing focus.
- **Wm Morrison** is a low-cost operator, which is a very good thing to be at this point in the cycle. It has a clear pricing policy, strong focus on availability and a standard format size. It is accelerating its conversions of Safeway stores and is integrating its supply chain. In terms of issues, range remains Morrison's weakest point (particularly their lack of a premium range), while its price advantage will be lost against Tesco and Asda. Southern England is a low-loyalty market and the Safeway conversions represent a risk.
- **Sainsbury's** decline has accelerated over the past three years. It has now adopted a sales-led strategy, which aims to generate £2.5 billion in sales over three years. The retailer is looking to appeal to the total market, not just quality-oriented shoppers, by matching prices with Tesco and Asda on key lines and by reducing its assortment by 20%. In the supply chain, it is planning new IT systems to deal with availability, helped by 3,000 new store staff. The issues for Sainsbury are its loss of family shoppers and its small presence outside the south of England. Its supply chain costs have gone up by £270 million in four years because it tried an expensive automated system. This has contributed to a relative cost gap with Tesco of 2.1% or £522 million.

- **Asda** is doing very well but owner Wal-Mart had no 'plan B' if it didn't manage to buy Safeway. The US group had planned to use Safeway to build market leadership in the UK. Asda is developing mezzanine floors and extensions but it is a frustrating time for them. Wal-Mart is not satisfied with the execution of EDLP but suppliers are reluctant to fund it given Tesco's ability to match prices. Asda has also hit a ceiling in its market share of value shoppers. It needs to acquire assets or leases to grow non-food format Asda Living and to build extensions for its superstores, but faces regulations.

ADVERTISING IN FOOD RETAILING - A PANORAMA OF STRATEGIES & TACTICS

Advertising in Food Retailing – A Panorama of Strategies and Tactics

Steve Hastings, Partner, Isobel Advertising Company, United Kingdom



Our ability to understand the brain has had an impact on advertising. We now know that 95% of the brain is made up of the subconscious and that this area takes in impressions even when we are not aware. In fact, 10,000 brands can be stored in the brain as impressions. As a result, 'feel' is as important as 'think' for advertising, since most people make decisions instinctively through the subconscious part of the brain.

In a society more led by added-value, the retail market has polarised between price and quality. For example, Marks & Spencer, Sainsbury and Waitrose attract more affluent customers, while Asda, Morrison and Tesco have more younger shoppers. So how do these brands use advertising?

They all have big budgets, last year going from £8 million for Marks & Spencer to £50 million for Sainsbury. Steve Hastings gave his analysis of the approach of the six UK food retailers:

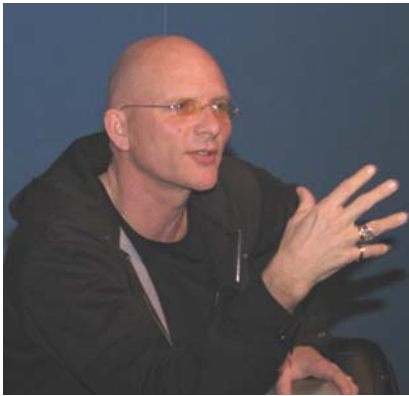
- **Tesco** used advertising to support its repositioning from the "pile it high, sell it cheap" of the 1970s. During 1990-92, the retailer's strategy was to present itself as a credible alternative to market leader Sainsbury. It put slightly better products in its stores and then ran TV commercials showing the brand, rather than price/product in the usual way. From 1993, Tesco's focus was on service, expressed in its "Every little helps" slogan. To reflect this customer focus, the company's next TV campaign invented Dotty, the mother we all know. Today, Tesco is classless, confident, innovative and trusted. It recently launched a new campaign with a simple message showing its choice of value and free-range eggs. The question is whether this represents a back-to-basics message from a straightforward company, or a message that is all things to all men.
- **Sainsbury** has traditionally been the food provider for "Middle England", identified by the slogan "Good food costs less at Sainsbury". But in the 1990s it lost its way as it came under assault from all sides. It tried to adopt a price focus in TV commercials using comic John Cleese, but this created confusion and annoyed staff. The retailer now has a long-term campaign using celebrity chef Jamie Oliver for different messages, such as quality, lifestyle and the Nectar loyalty programme. However, Sainsbury's recent press advertising has not been so consistent, mixing price and product messages. The choice for the company is whether to copy Tesco or appeal to middle-class foodies. It will probably choose the latter and survive only with a much lower market share.

- **Asda** and **Morrison** are easy for advertisers as they have a clear, consistent focus on price. Asda's TV commercials all include the "Always low prices" slogan and feature the "pocket pat" at the end to show that the customer is saving money. Morrison is different in that it uses TV to communicate service and press for prices.
- **Marks & Spencer** and **Waitrose** are the upmarket players. M&S has smaller spend on advertising and lacks consistency, since it is difficult to see what the strategy is. Its adverts show delicious food but without branding, so they look like cookery book images. Waitrose's advertising has sought to address perceptions that it is expensive. The solution has been to find stories around individual products and supplier relationships, and then link these to a subtle price tag. The adverts also broke the rules by never showing the food itself.

THE CHERRY ON THE CAKE

Karaoke Capitalism

Kjell Nordström, Professor at the Institute of International Business, Stockholm School of Economics, Sweden



We define ourselves today through consumption. Where a person shops and what they buy tells you a lot more about them than education or work. As a backdrop to his analysis, Kjell Nordström outlined two other phenomena. Firstly, just as temperature is the most fundamental thing in nature, the level of information we distribute 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 were founded on the principle of processing information in a different way. Secondly, we live in an "age of cheap". The world's biggest publication is free newspaper Metro, with a daily circulation

of 16.9 million in 52 countries. The cheap segment will account for 50-70% of major industries in the years to come. Against this background, Kjell Nordström discussed some important trends in society and their relation to business.

Freedom

Greater individual freedom is shown by the fact that in every city single households are becoming more prevalent. Stockholm is the number one singles city, with 66% of households made up by single people. Retailer ICA has reacted to this trend by launching a "Single Market". Wal-Mart, meanwhile, has enjoyed success with singles evenings in Germany and is now going to roll out the concept in the US. The same phenomenon is taking place worldwide, although at different rates. This is important because if you take away the most fundamental building block of society - the family - everything from housing to voting procedures changes.

Individual freedom is also reflected in globalisation. People often think of globalisation in terms of global brands or EU expansion. But this is exactly wrong: the world is more fragmented in its countries and regions. The example of Silicon Valley - where 76% of the inhabitants were neither born nor raised in the US - shows how globalisation allows everyone to find their spot through a process of "self-selection". We are building thousands of places like this around the world, like the financial centre of the City of London and the fashion centre of Emilio Romano.

We have to go back to medieval times to find the same level of fragmentation. This means that the years to come will be about cities.

Power and control

In history, there have been four steps in the development of communication: learning to speak (i.e. language); writing – which allowed the young to learn quickly; printing – which allowed ideas such as Martin Luther’s to spread; and finally interactivity, which is changing the world today. The TV programme Big Brother, for example, is about non-stop interactivity through voting and SMS. So communication will be two-way instead of one-way.

The US

The US is the only one of the three richest countries from 1936 still in the top three today. It continues to grow twice as fast as Europe and dominates areas such as the Nobel Prize, sports and universities. 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 up to 180 years in Finland and never in Japan. As a result, the US mops up all the good people from all around the world. It thus uses a ‘foreign legion’ model: your background doesn’t matter as long as you perform.

Karaoke capitalism

The flow of information makes it easy to copy. This is what “karaoke capitalism” means: there is no originality. This creates pressure for businesses whose decision-makers still think in terms of a “normal distribution” model based on a big middle class. But society is more divided now. Businesses are thus under pressure to attract talented people and satisfy consumers who have greater buyer freedom. Brands will thus be important as people will pay for “uncertainty reduction”. “Biographical brands” in particular will have a major competitive advantage. This is because their entrepreneur-owners have a long-term vision, unlike shareholders, and because they are trusted by people, whereas institutions like shareholder corporations are not.

“Handicap theory”

The going is getting tough in business as companies are exposed to full global competition. How can companies survive? 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.

So when the going gets tough there are two ways to survive: being brutally fit – like Ryanair, H&M and IKEA – or being sexy and investing in handicaps. There is almost nothing in between. We will see this pattern rolled out to industry after industry as companies deal with people who are free to be, do, go, know what they want.



**This summary has been written by Gustavo Trompiz, Editor
CIES - The Food Business Forum**

TOP OF MIND RESULTS

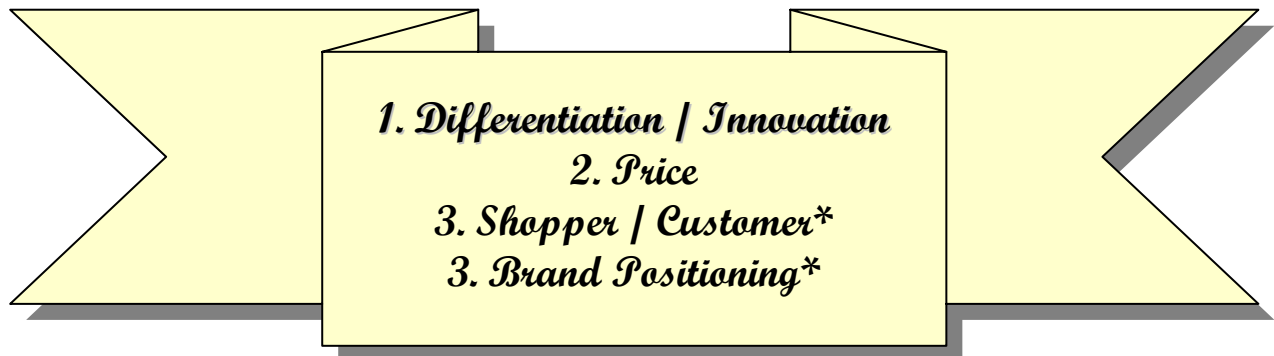
TOP OF MIND ISSUES VOTED AT THE CIES MARKETING FORUM 2004

204 Marketing Directors from 33 countries voted were asked to vote on their top of mind issues in London during the CIES Marketing Forum.

A list of 10 top of mind issues was drawn up by the CIES International Committee on Marketing and the forum delegates voted for their top 3 issues:

- DIFFERENTIATION / INNOVATION
- ASSORTMENT
- PEOPLE
- PRICE
- HARD DISCOUNTERS
- GROWTH
- SHOPPER / CUSTOMER INSIGHT
- LOYALTY CARD
- BRAND POSITIONING
- STORE FORMATS

THE RESULTS ARE AS FOLLOWS:



* Equal number of votes for third position

SPONSORS

CIES-The Food Business Forum thanks the following companies for their generous support of the food business sector and intellectual contribution to this CIES Conference:

Waitrose



The logo for Novandie, featuring a stylized blue brushstroke graphic above the word "NOVANDIE" in a blue, serif font.



accenture

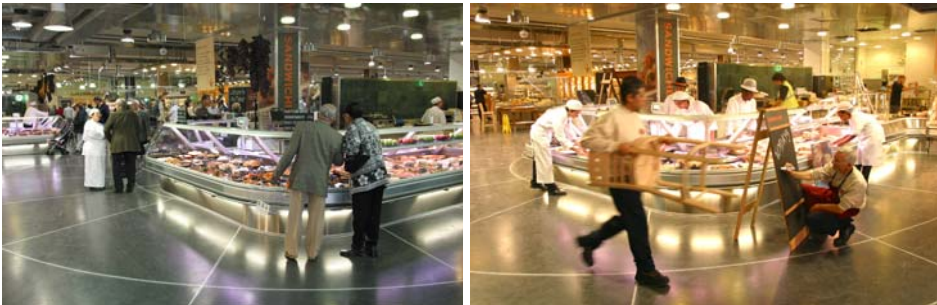
STORE TOUR PROGRAMME

CIES would like to thank the following companies for hosting 92 conference delegates during the Store Tour Programme.

Waitrose.com



Sainsbury's



MARKS & SPENCER





KEY STORE TOUR QUOTES FROM DELEGATES

- + “It gave a good impression of the local shopping scene and a look in the kitchen of major retailers.”
 - + “Excellent welcome, interesting tour”
 - + “Very informative tour helping to understand the specific store makeup.”
- + “Good overview of the shopping style of London and first contacts in coach.”
 - + “Good explanation of store and company before the visit.”
 - + “Great possibility to see the London retail landscape in one day.”
- + “Good opportunity to see retail trends and new product development.”
- + “It showed a variety of key retailers and their best retailing strategies.”

KEY CONFERENCE QUOTES FROM DELEGATES



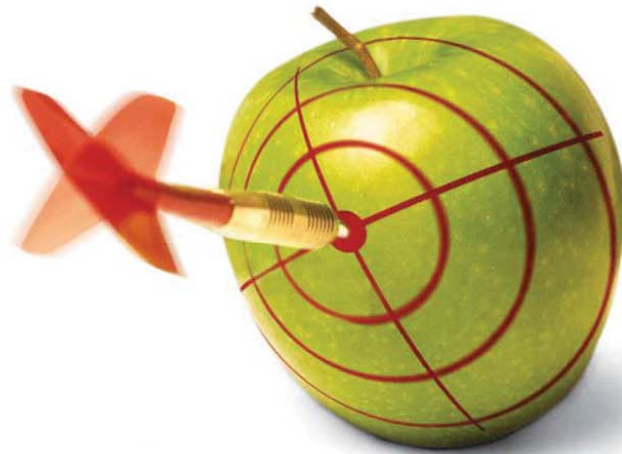
KEY CONFERENCE QUOTES FROM DELEGATES IN 2004:

- ✚ “Excellent food for thought. Refreshing and inspiring. Very friendly atmosphere.”
 - ✚ “Relevant topics with good speakers. Thank you!”
 - ✚ “Very well organised, great for networking.”
 - ✚ “Some fresh air that 'opens the box'.”
- ✚ “Very good conference, sessions linked together really well. Very enjoyable. Lots of thought provoking content.”
- ✚ “Excellent atmosphere, getting better every year. Two very productive days.”
- ✚ “Always a new wave of ideas, though-provoking, practical take aways, nice organisation.”
 - ✚ “Excellent level and content”
 - ✚ “Great again!”
- ✚ “Excellent format. High quality industry speakers. Informal environment which encouraged questions from the audience,”
 - ✚ “Really enjoyed the event and met some great people.”
- ✚ “Cruise was fabulous: views, food, entertainment and company were great.”
 - ✚ “Well put together. Excellent organisation. Well balanced content.”
 - ✚ “Look forward to Paris 2005!”



CIES MARKETING FORUM 2005

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15th & 16th November 2005
Paris, France



CIES MARKETING FORUM 2004

