



**The World Food Business Summit 2004**  
Rome, Italy, 16-18 June 2004



# Executive Summary

## Rome Summit Quotes

“If we do not deal ourselves with the important issues of our sector, other people will do it for us.”

*Pierre-Olivier Beckers, Chairman, CIES – The Food Business Forum & President & CEO, Delhaize Group*

“I am puzzled by the lack of confidence of leaders in business and politics. There is no reason for anyone in the world to be hungry or poor or without shelter. These are conditions we inflict on each other.”

*Mike Moore, Former Director General of the World Trade Organisation & Former Prime Minister of New Zealand*

“Our sector has an absolutely unique place in society. We can give people meaningful choices ... to live healthier and more enjoyable lives.”

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

“Unless you get the balance right between tangibles and intangibles in your business offer, you won't succeed in today's consumer and media-driven environment.”

*Lord MacLaurin of Knebworth, Chairman, Vodafone*

“Establishing a retail brand is the best possible answer for competing with discount stores.”

*Dr. Jürgen Elfers, Financial Analyst, Head of European Retail Research, Commerzbank*

“Innovation can only consistently be achieved by large manufacturers.”

*Guido Barilla, Chairman, Barilla Group*

“If we're not leading ourselves as best we can, how can we expect people to follow our values?”

*Robert Swan, Polar Traveller & EU Ambassador for the Environment*

## Rome Summit Conclusions

**Fair and sustainable trade:** business can make an enormous contribution to the development of societies around the world, by generating wealth, supporting good governance and investing in innovation. The retail sector in particular is in a unique position to meet public demand for value and values, since it is placed at the interface between manufacturing and consumers. Corporations are under intense scrutiny in today's globalised society but have to show leadership and not leave it to governments alone to determine policy.

**Health and nutrition:** obesity is now established as a major global issue and consumers are seeking better choices and information in order to lead healthier lives. The food business can make a huge impact through core activities, like product development, and through related initiatives, such as sports programmes, that address the whole of the calories-in, calories-out equation. Joint action will be essential to develop comprehensive solutions and must be supported by solid, science-based evidence. Companies thus need to provide clear, honest information and avoid one-sided polemic or confusing health claims.

**Market shifts:** it is the consumer who decides what value is and this is changing fast under the impact of globalisation, technology and economic recession. Discounting has succeeded in meeting consumer demand in many sectors, including retailing, and has forced traditional operators to change. The key to surviving in such a competitive context is defining your brand and motivating your people to carry it.

**Leadership:** leadership is critical for businesses given the pressure to prove themselves to sceptical and well-informed stakeholders. Leaders have to show the courage to communicate values and make people believe in them, first and foremost their own people. Motivating talent will be one of the main areas in which modern companies will differentiate themselves from traditional ones. In an increasingly open society, businesses with open cultures will benefit most from talent.

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## **Opening Session: The Price of Fair and Sustainable Trade**

### **Welcome to The Summit**

*Pierre-Olivier Beckers, Chairman, CIES – The Food Business Forum & President & CEO, Delhaize Group*

Pierre-Olivier Beckers gave delegates an update on CIES activities during the past year. The Global Food Safety Initiative (GFSI) has continued to improve benchmarking guidelines, bringing tangible benefits in product auditing. The momentum built up by GFSI was shown by the success of the 3<sup>rd</sup> International Food Safety Conference held in Barcelona in January, which gathered over 350 delegates. The Food Business in Society initiative (FBiS), launched last year, has pursued its aim of providing evidence of the contribution of the sector to society. Following a workshop held in April to map out the issues, FBiS is now launching an online resource centre to share data and best practice and is also publishing an ‘Audit’ by Templeton College, Oxford, on the contribution of the sector. These initiatives illustrate one of the main roles of CIES, to encourage concertation and the orchestration of common positions on key industry issues. “If we do not deal ourselves with the important issues of our sector, Pierre-Olivier Beckers stressed, other people will do it for us.”

Turning to the Rome Summit, Pierre-Olivier Beckers noted the high turn-out, with over 900 participants from 42 countries. This year’s theme, “The Meaning of value”, represents a fundamental concept in our lives, he argued, whether in terms of value creation, value and values, consumer value or shareholder value. The importance of the subject is shown by the fact that it was a major preoccupation at the very first CIES congress, held in Rome in 1956. Opening speaker Octave Vieujeant, grandfather of Pierre-Olivier Beckers, called then for “an economic development which would truly be in the interest of people and their well-being and moral standing”. Another keynote speaker, Pope Pius XII, echoed this point by stressing “the concepts of social good and of optimal functioning of distribution which together converge towards the same goal: increasing the true value brought to communities”.

### **A world without walls**

*Mike Moore, Former Director General of the World Trade Organisation & Former Prime Minister of New Zealand*

The current wave of globalisation has democratised information, Mike Moore argued. This has produced a heightened awareness among populations and has led markets to punish countries and companies for bad practices. We should celebrate the great advances of the last 50 years, he said, during which time life expectancy has increased by 20 years and democracy has spread in Europe, Latin America and Asia. Such facts disprove the charges levelled against globalisation, for example that it has meant the end of democracy and the nation state, or that it is a plot by big business. Rather than worry about corporate power, he insisted, people should “pray for globalisation”.

We get improvements in society and politics because people in free societies demand better outcomes, he explained. In other words, open societies and globalisation drive up choice, competition and transparency. There is still a long way to go, as shown by the tragic effect of western subsidies on commodities, such as sugar and coffee. Business can alleviate poverty in the developing world through public-private partnerships. This will in turn lead to better governance, which has an enormous economic impact. If Cameroon, for example, could raise the quality of its institutions to the international average, the country's average annual income would increase from \$600 to \$2,000. The problem is not too much globalisation, Mike Moore concluded, but not enough. "If Africa can get half the growth that China and India are getting, the world will be a much happier place", he stressed.

## **The price of fair and sustainable trade – A CEO Panel**

*Manuel Fong, Jr., Managing Director, Supervalu, Inc., Philippines*

*Claude Hauser, Chairman, Migros-Genossenschafts-Bund, Switzerland*

*John Menzger, President & CEO, Wal-Mart International*

*Anders Moberg, President & CEO, Royal Ahold, The Netherlands*

*Mike Moore, Former Director General of the World Trade Organisation & Former Prime Minister of New Zealand*

*Vincenzo Tassinari, Chairman, Coop Italia, Italy*

*Moderator: Denise Larking-Coste, Author & Business writer*

A panel of food retail CEOs debated the question of "The Price of Fair and Sustainable Trade".

**Denise Larking-Coste** explained that the starting point for the session was the "5 Tests" set by Bob Geldof at the 2003 CIES Summit as requirements for the food business to achieve sustainable success:

1. Is your business responsive to consumers?
2. Is your business dominant?
3. Are your brands bullies?
4. Do you as a sector grab too much of taxpayers' subsidies?
5. Do you as a sector enjoy an unfair share of the world's water supplies?

**Manuel Fong, Jr.**, argued that globalisation has challenged retailers and suppliers by creating "heightened consumerism". With the advent of the information age, common issues such as food safety and corporate governance have emerged among consumers worldwide. In this context, offering quality product and low price are a given: consumers are now demanding moral and ethical values. So what can retailers do? Core values must be instilled at every level of the organisation, he stressed, since "Only when such 'good corporate citizen' behaviour is consistently applied in all stakeholder relationships ... can trade be truly fair and sustainable long term." Such values are vital because leadership in business and other spheres today suffer from a "credibility gap".

**Mike Moore** insisted that a situation whereby 2.5 billion people have no access to a private toilet while an EU cow gets \$2 a day in subsidies cannot be justified. But freeing up trade is only an opportunity: good governance is also needed, he stressed, because "money is a coward, it likes stability". Regarding the lack of progress in trade talks, he argued that no trade round ever failed, it can just take several years. The current round could bring agreement in 2005 or 2006, he forecast, given that the EU has made "the most substantial offer in 50 years on agriculture", while developing countries like Brazil, China, India and South Africa are showing a healthy solidarity in negotiations.

**Vincenzo Tassinari** explained his group's "action plan" to address three areas – food safety, the environment and human rights – in partnership with its suppliers. It is an ambitious programme, he stressed, because it requires "cultural change". However, Coop benefits from its strength as a large retailer and a cooperative with 5 million members. At the same time, the company is working in collaboration with other retailers through ECR Italy. Such industry initiatives are crucial because in

today's context of globalisation, national governments and organisations like the WTO are not able to protect consumers against risk.

**Claude Hauser** explained how his organisation has acted as a pioneer in offering added value. In Switzerland, consumers have benefited from wide choice and lower prices but they now want added value. Migros has notably developed a range of special labels under its umbrella Engagement brand, offering standards in areas like organic products. In non-food, the retailer has developed a Code of Conduct for suppliers. The important thing is to reach standards that are accepted by all your suppliers and which then provide a model for other retailers to follow, Claude Hauser explained. Migros' commitment to developing such standards is shown by the fact that its special labels account for around 15% of total sales.

**Anders Moberg** stressed the importance of retailer-driven initiatives in supporting fair and sustainable trade. In food safety, the Global Food Safety Initiative has facilitated international trade by reducing auditing costs and stimulating exports from developing countries. At the same time, retailer-driven agricultural standards go further than food safety, he argued, as shown by Ahold's supply chain project in Ghana, which has supported jobs and schooling for 500 local people. To promote sustainable agriculture, Ahold encourages the reduction of traditional subsidies, together with a minimum harmonisation of legal standards regarding ecology and animal welfare, in order to secure a 'level-playing field'. "If these retailer-driven initiatives would be combined with available development and food aid programmes, Anders Moberg insisted, huge differences can be made."

**John Menzer** outlined Wal-Mart's position in two areas: free trade and being a good corporate citizen. As a multinational retailer, the company has "a vital interest in the streamlined and sustainable flow of international goods, services, agricultural products and financial capital", he explained. Wal-Mart thus supports initiatives to cut tariffs in sectors such as textiles and food products, such as sugar. As the world's largest company by sales, Wal-Mart has the *obligation* to be a good corporate citizen, he stressed. This is illustrated in commitments to the fair treatment of suppliers, energy conservation, supporting charities and being an exceptional employer.

## The meaning of value

*Lord Hindlip, Auctioneer*

Beauty defines art but it can apply to any creation of man's imagination or enterprise. "The ultimate symbol of beauty in the second half of the 20<sup>th</sup> century, Lord Hindlip argued, is not in any painting or sculpture but in an aeroplane – Concorde." Beautiful images of life occur across the globe wherever civilisations appear. From the paintings of the cavemen of Lascaux in southern France between 10 and 15,000 BC to the art of the Benin peoples of western Nigeria, art charts man's progress. "One picture is worth a thousand words", in the words of 1920s advertising pioneer Frederick R. Barnard, and nothing describes national character better than a country's painting. This is demonstrated by the masters of western art from England to Italy.

Western art also shows the importance of patronage. While this has often grated with artists, art generally reaches its high point when artists act as the accomplices of powerful men. This is most evident in Italy and especially in Rome. It was Pope Julius II, notably, who commissioned Bramante to design St Peter's and Michelangelo to paint the ceiling of the Sistine Chapel. But if you are not rich or powerful enough to commission art, the next best thing is to collect it and this is why we have had an art market for over 450 years, Lord Hindlip explained. People sometimes express horror at the 'ridiculous' price reached by a painting but the increases in the value of art over time are comparable with other labour-based products, such as handmade shoes. During his 40-year career at Christie's, Lord Hindlip saw the record auction price for a work of art rise from just over \$1 million to \$49

million, the price obtained by Hindlip for the last of Van Gogh's Sunflowers series at a 1987 auction. The value of such paintings is not crazy, he insisted, because "they show man's inventive ability at something near its best."

## **Business Session 2: Food Politics**

### **Food Politics: The nutrition & obesity debate**

*Marion Nestle, The Paulette Goddard Professor of Nutrition, Food Studies and Public Health, New York University*

Whereas a couple of years ago obesity was talked about in terms of personal responsibility, the debate has since turned into one about society and the role of the food industry. Obesity relates to the balance between calorie consumption and physical activity. On the calorie side of the equation, "the food system" is a crucial determinant, Marion Nestle argued. Obesity is in fact "collateral" to a competitive market in which companies are trying to get consumers to eat either more of their food or more food in general. So how is food sold in the US? The \$1.3 trillion food industry spends \$34 billion on marketing, most of which is focused on foods that are only recommended in small quantities by the government's "Food Pyramid". Advertising has delivered "eat more" messages by using health claims, such as sweetened breakfast cereals marketed as helping against heart disease. In this context, "it is extremely difficult for consumers to make healthy choices", she stressed.

Portion size and pricing are two other important factors determining food consumption. "Portion size alone is sufficient to account for rising levels of obesity", Marion Nestle insisted, noting the example of a 64oz, 800kcal soft drink sold by a US cinema. Government agriculture policies have at the same time contributed to make certain foods cheap, bringing a situation where \$5 buys one salad but five hamburgers at McDonald's. "Eat more" messages have also been directed at children, through targeted advertising that seeks to create loyalty to special kids' foods. "This is where the food industry crosses an ethical line, she argued, and it is an enormous point of vulnerability." But the example of Whole Foods, the first national organic grocer in the US, shows how the industry can be part of the solution to nutrition and obesity. The most important thing for food companies to do, Marion Nestle concluded, is to give people real choices, by offering at reasonable prices healthy products that really are healthy.

### **Developing a healthy business at McDonald's**

*Mats Lederhausen, Managing Director, McDonald's Ventures, McDonald's Corporation*

"Conversations about responsibility always seem to be about *someone else's* responsibility", Mats Lederhausen argued. To counter this "abdication of personal responsibility", businesses need to recognise that they are the most powerful institutions on the planet and so have an enormous responsibility. In addressing the issue of nutrition and balanced lifestyles, McDonald's has drawn on its experience in operating a "multi-local system" that adapts a core concept to local customs and cultures. The company last year organised the individual work of its country operations into a global effort called "Eat Smart, Go Active". Through this initiative McDonald's has identified three major areas of action: menu choice, education and physical activity.

In terms of menu choice, McDonald's basic aim is "to offer a portion for every appetite, a price for every pocketbook and a taste for every palate." To reinforce choice, the company has introduced a series of new options, such as sliced fruit and low-fat, low-sugar yoghurt in the UK. Whereas a decade

ago, people never associated McDonald's with salads, Mats Lederhausen noted, today the company probably sells more salads than anyone else in the world. To support consumer education, McDonald's is seeking to enhance access to information, notably by providing nutrition information on trays in all its 30,000 restaurants by the end of this year. Finally, to address the problem of sedentary lifestyles, the company is sponsoring a range of sporting events, including this year's Olympic Games, and has established a website, GoActive.com, dedicated to exercise and lifestyle issues. Summing up, Mats Lederhausen argued that progress in nutrition and lifestyle would require pragmatism, collaboration and above all optimism. "What we need is a more constructive tone and a dialogue where people actually want people to win, not lose", he insisted.

## **What responsibility does our sector have for the health and nutrition of society?**

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

*Wolfgang Gutberlet, Chairman, tegut, Germany*

The short answer to the title question, **Neville Isdell** argued, is to create value. "Few sectors in the world have created more value for others than we have", he stressed, since the food business has used production and distribution technologies to offer consumers falling prices and increasing variety and quality of goods. "This has been a major public service, a major force for good", he insisted, and the fact that levels of malnourishment have not fallen faster has much more to do with bad government policies, particularly agriculture policies in Europe and America. Moreover, the fact that we are having a debate about obesity is testimony to the sector's success at managing food resources efficiently and creating value.

A very strong argument can thus be made that the sector is doing enough in its responsibility for the health and nutrition of society. However, it is always consumers who decide what value is and what they want changes over time. Concerning health and nutrition, Neville Isdell picked out three areas as future priorities for consumers: *choice*, in terms of options, such as lower-calorie products or so-called nutri-ceuticals, that allow a consumer to act on a decision about his or her health and lifestyle; *information*, including basic facts about the content of food and assurances about quality, safety and production; and *goodwill*, meaning what we do outside our manufacturing facilities and retail locations. This last area is particularly important, he argued, because "Legislators and regulators can pass laws and set standards ... but meaningful progress simply will not happen without us." This role can be summed up in the word *leadership* and here retailers have been more prominent in recent years, he noted. To address the obesity issue, retailers and manufacturers need to work together, because all brands have as much at stake. In particular, companies need to work together to ensure that the debate stays honest and that the facts are based on good, solid science. The food business has a unique place in society, Neville Isdell concluded, because it can give people the meaningful choices and the information they need to live healthier and more enjoyable lives.

**Wolfgang Gutberlet** discussed the question of responsibility with reference to his company, a family-owned chain of 300 natural food stores in Germany. At a general level, the responsibility of business can be broken down into economic, social and cultural areas. Such responsibility is complex and you have to be ready to communicate it to others in society, he argued. Health in particular is a complex issue because it goes beyond medical definitions to cover subjective notions like well-being. Concretely, the food sector has a responsibility for meeting consumers' basic needs, giving them information and guaranteeing quality. However, the advent of 'nutri-ceuticals' has blurred the boundary between food and medicine, so here companies have to be careful about how they communicate. Companies also have a responsibility regarding hunger in the developing world but their first responsibility is to provide quality products in their own country, he stressed, which can then serve as a model elsewhere. Many

people predicted that tegut would not survive, Wolfgang Gutberlet noted, but its family-owned model based on the ideals of truth, beauty and good has continued growing over 50 years.

## **Famine and poverty, a global affair**

*David Harcharik, Deputy Director-General, FAO*

The Food and Agriculture Organisation (FAO) is the United Nations body responsible for ensuring that people around the world have access to safe and nutritious food. Unlike its sister organisation, the World Food Programme, FAO does not give food aid but seeks to put in place the policies and provide the technical assistance to allow people to grow or gain access to food. The organisation operates in three main ways: firstly, it is a forum in which members develop standards, such as the Codex Alimentarius for food safety; secondly, it represents a major source of information on food and agriculture; and thirdly, it provides on-site advice and assistance, particularly in the rural areas of developing countries where 70% of the world's poorest people live. But FAO's most important activity is advocacy, David Harcharik stressed, since it does not have the human or financial resources to overcome hunger by itself. It notably organised the World Food Summit in 1996, which led to a commitment from governments to half the number of hungry people by 2015.

Progress in fighting hunger and poverty has been mixed in recent years. While the proportion of the world's population living on less than \$1 a day fell from 30% to 23% during the 1990s as a whole, the figure rose during the second half of the decade. The situation has deteriorated above all in sub-Saharan Africa, where 20 countries are now poorer than they were in 1990. The private sector can help, David Harcharik argued, not by offering funds but by sharing a broader vision of public-private partnership. There are compelling reasons for business to enter such partnerships, such as the fact that investment in developing countries creates more stable business environments and more potential customers. There are a number of practical steps companies can take, such as signing up to the UN Global Compact or helping small producers adhere to private food standards. "There is no room for complacency and no point in self-congratulation for any progress that has been made", he insisted. Everyone concerned must do more and for companies, he concluded, the fight against hunger is also a business opportunity that can motivate staff and customers, thereby helping the bottom line.

## **Business Session 3: Tectonic Shifts in the Market Place**

### **Understanding the shifts**

*Charles Handy, Social philosopher, Management scholar & Author*

Charles Handy described four underlying tensions or tectonic shifts that businesses should be aware of. First, the divide between the 1.2 billion people who live in the first world and the 4.8 billion people in the developing world. The challenge is to straddle the two by giving the rest of the world the potential to make money. "In order to make the rich richer, he noted, you've got to make the poor richer first." One response is shown by Hindustan Lever, which has developed small packs of washing powder that are affordable for the rural poor in India and which are sold by women villagers themselves. A second tension is the divergence between a "commodity" or discount, process-driven model, and a "relationship" model. The latter has become a major growth area as consumers have looked for help with dealing with too much choice. Banks, for example, are now moving on from call-centres to

personal customer advisors. The question for business is whether companies can straddle the two approaches to generate a more creative future.

A third shift is between big organisations, or “elephants”, and independent-minded individuals, or “fleas”. Again, the challenge is to join the two plates, as retail organisations have done by using franchises. Charles Handy pointed out that he represented an example of this interaction, since he works as a “flea” under contract to, but not an employee of publisher Random House, which is in turn part of media giant Bertelsmann. A fourth tension is between selfishness and society. “You are all good people”, he asserted, but it’s terribly important that the world understands that what you do is good for them, and not just that you pay taxes.” Charles Handy urged business to take a lead, as governments won’t because they follow their electorates. Quoting theologian Reinhold Niebuhr, he argued that, to go out ahead on such difficult society issues, companies will need hope, belief and love.

## **Creating a global brand**

*Lord MacLaurin of Knebworth, Chairman, Vodafone*

Lord MacLaurin shared his experience of brand building, first at Tesco and then at Vodafone. In an increasingly global and virtual society, it is crucial for businesses to get the balance right between tangibles, such as product and price, and intangibles, like customer experience and corporate image. Tesco’s success in recent years lies in a new “attitude” that it added to its traditional, tangible proposition of value and convenience. Summed up in the slogan “Every little helps”, this attitude was reflected in a series of initiatives based on customer feedback, such as the introduction of Tesco’s Club Card and the commitment to open an extra checkout whenever there was a queue of more than two people. Overall, this attitude allowed the UK retailer to create a brand that “knew what it stood for”, fuelling 400% sales growth over the past decade. Building the Vodafone brand has proved more complex for three reasons: it provides a software-based product that is much less tangible than groceries; the product quality of its mobile phones is only perceived when the system lets you down; and its global expansion has been extremely rapid, transforming Vodafone from a local operator into a global giant within the past five years. But the fundamental question for Vodafone was how to develop both a common, consistent global brand and differentiated elements at local level.

Lord MacLaurin outlined four lessons drawn from this process. Firstly, getting it right for customers, which is easier to do if you grow organically like Tesco. Through its series of acquisitions, Vodafone has pursued a consistent brand feel, while meeting local requirements through locally-tailored services and advertising. Secondly, in its people strategy, Vodafone has stressed the career dimension of working for a global company. Its Global Leadership Programme aims to produce half of Vodafone’s top 250 leaders by 2014. Thirdly, Vodafone has sought to gain a reputation for corporate social responsibility, through the work of the Vodafone Foundation, and for corporate governance, supported by the role of Lord MacLaurin as independent chairman. Finally, in driving bottom-line results, Vodafone has learned that you have to take consumers from recognising your brand to *preferring* it. “If you can see what you’re selling in terms of the bigger picture, he stressed, you’ll achieve preference”.

## **Retailer Brands – the brand of choice?**

*Philippe Breton, Consultant & Author, PHB Consultants*

Retailer brands have become a major economic driver across the world, worth an estimated \$85 billion in sales. They have supported consumer buying power, created manufacturing jobs and become the reference point for price value. This growth has spread to many formats and categories, from hypermarkets to travel agents. In France, however, retailer brands are not yet brands of choice for

consumers, stores or suppliers. According to a barometer carried out by Philippe Breton since 1995, most French consumers trust retailer brands but still see them as generic brands lacking differentiation. As a result, retailer brands are not yet a factor in the choice of store, reducing the interest of stores in developing the concept. Suppliers, meanwhile, have been discouraged by a lack of data sharing from retailers, despite the fact that manufacturing store brands can be profitable for small and medium-sized companies.

To become the brands of choice, retailer brands have to move on from the first and necessary stage of copying national brands to develop into a source of excellence for the retailer. UK supermarkets have shown how a brand position can be developed, notably using a clear product structure of “Good-Better-Best”. In constructing their own brands, retailers should also be ready to drop categories in which they bring no added value to either the customer or the store. Philippe Breton underlined three key elements for building a retailer brand: simplicity, service (based on real customer needs) and anticipation. The last point is illustrated by Carrefour, which reacted to information about health risks relating to British meat in the late 1980s by developing a quality channel that later enabled it to respond effectively when BSE broke out in France. Above all, retailers should remain focused on the consumer, since experience shows that “the intelligence of demand is often more powerful than the strength of supply”, he concluded.

## **The industrialisation of food retailing**

*Dr. Jürgen Elfers, Financial Analyst, Head of European Retail Research, Commerzbank, Germany*

Consumers in Europe may increasingly prefer low prices as they are squeezed by globalisation, Jürgen Elfers argued. Looking ahead to the world in 2010, we can expect the social fabric of Europe to be polarised, as social security and tax systems change. The main loser will be the middle class, the target clientele of traditional supermarkets. With consumers trying to manage their spending more effectively, this scenario thus works in favour of discount stores and their market share will inevitably rise further. To create obstacles for discounters, countries have introduced specific regulations but these have worked against consumers by fuelling prices and margins, particularly in France. Non-discount retailers must use the limited time gained with the help of such regulatory obstacles to improve their value propositions. Specifically, they need to pursue aggressive cost-cutting and apply optimal store models. But, ultimately, “Establishing a retail brand is the best possible answer for competing with discount stores”, he argued.

Broadly, discount stores stand out from “the rest of the pack” in their efficiency and their ability to offer “the best possible quality for a pre-determined shelf price”. These strengths form part of a superior business model that combines low capital intensity and high returns on capital employed. The success of the discount model is shown for example by the high market share of Aldi in categories where it has very few products. But this discount growth is not confined to small-box hard-discount stores. Kaufland, the hypermarket chain of the Schwarz group (Lidl), has found a “winning formula” of compact hypermarkets that require low capital intensity. The banner spends an estimated 5 million euros on new stores in central Europe, compared to 28-45 million euros for other operators who have invested in large, upscale hypermarkets. As an illustration, Kaufland has relative capital intensity (i.e. capital expenditure divided by sales) in central Europe of 40%, compared to 100% for Tesco. In view of this efficiency, “the compact hypermarket will be the format of the future”, Jürgen Elfers predicted.

## Breakfast Breakout Session:

### Who wants to be a non-executive director today?

*Philippe Haspeslagh, Professor of Business Policy, INSEAD, France*

*Jacques-Etienne de T'Serclaes, Global Retail and Consumer Leader, PricewaterhouseCoopers*

**Philippe Haspeslagh** outlined what has changed in corporate governance today. In a complex business world, “effective boards need to do much more than comply with rules”, he argued. In other words, it is the “soft factors” of the quality of the Board process, not rules and regulations, that are most important for good governance. Philippe Haspeslagh pointed to six specific factors that determine the effectiveness of a Board: a *quality framework* (i.e. making clear what the role of the Board is); *quality people* (i.e. selecting a group of individuals with the right character and knowledge); *quality time* (i.e. effective meetings, including without shareholders or management); *quality inputs* (i.e. issues-based agendas rather than piles of data); *quality processes* (e.g. strategy, risk management, leadership development); and *quality teamwork* (i.e. collective action by the Board). Before joining a Board, future non-executive directors need to think carefully about the responsibilities involved – it is no longer merely an ‘honour’ – and whether there could be conflict because of issues such as family or CEO control.

Whereas retail and consumer goods was traditionally a low-risk investment, **Jacques-Etienne de T'Serclaes** explained, it is now a “high-visibility sector” under pressure from all stakeholders. He described three major types of risk affecting the retail and consumer goods sector. Firstly, the customer, since companies that lose touch with the market are quickly punished. A second risk area is the execution of management processes. Non-executive directors in retail and consumer goods need to recognise that high levels of rigorous internal control mechanisms are needed, particularly in relation to retailer-supplier relationships and food safety and traceability. Thirdly, companies need to establish a sound communication and reporting process in order to strengthen brand trust. Non-executive directors should take into account four main issues here: communicating a coherent message to all stakeholders; ensuring reporting is relevant to analysts’ and investors’ needs; migration to IFRS (International Financial Reporting Standards); and integrating new corporate governance regulations, such as the Sarbanes Oxley legislation. The 2005 deadline for European companies to adopt IFRS standards will in particular bring profound changes in the way they deal with items such as revenue recognition, vendor allowances and fixed assets.

## Business Session 4:

### Brand *Italy*

#### Retailing in a Food Culture

*Giovanni Cobolli Gigli, Chairman of Rinascente & President of FAID*

Giovanni Cobolli Gigli offered an overview of the retail sector in Italy. On a macro-economic level, Italy has experienced low GDP growth and consumer spending in recent years. Weakness in consumer demand is shown by the fact that trade consumption has fallen in real terms since 1990. Moreover, retailing’s share of total spending has fallen from 35% in 1991 to 23% currently. The retail sector itself remains fragmented, with the top five players claiming 54% of fast-moving-consumer-goods sales at hypermarkets and supermarkets, well below other European countries. At the same time, Italy is still one of Europe’s biggest food markets, with at-home consumption totalling €121 billion in 2003. This reflects the fact that Italy is a food-conscious culture, marked by strong regional and local variations.

Giovanni Cobolli Gigli thus underlined that “to operate in food retailing in Italy, perhaps more than elsewhere, you need to have a deep understanding of the consumer.” Retailers have at the same time had to take into account emerging demographic trends, such as the growth in the number of older consumers, single people and immigrants. The economic climate has also led to a much sharper focus on price, while food scandals and the debate over genetically modified products have fuelled demand for more information. Large-scale retailers thus face a complex picture but have “a unique opportunity to consolidate their image with consumers”, he stressed. They have notably introduced regional products, developed own-brand ranges and worked on food safety. They have also been very active in fighting inflation, for example by establishing with suppliers a price freeze during the introduction of the euro. However, the role of large retailers in restraining inflation, generating jobs and paying taxes is not recognised by the government, which has created a series of obstacles to large-scale retailing through complicated regulations. Retailers need structural reforms to be carried out, Giovanni Cobolli Gigli concluded, in order to simplify bureaucracy, improve competitiveness and give greater freedom to companies to take decisions.

## **Turning Italian specialities into global brands**

*Guido Barilla, Chairman, Barilla Group*

Having leaped ahead to become the sixth most industrialised nation, Italy now finds itself at a standstill. It has seen exports drop by 7.3% over the past two years, the largest decrease of any European country. So why is Italy more vulnerable to globalisation than other European countries? Guido Barilla argued that three fundamental misconceptions lie behind this problem. Firstly, that services will somehow make up for industry’s lack of competitiveness. Secondly, that ‘small is beautiful’, or the idea that small and medium-sized manufacturers, one of the hallmarks of the Italian economy, can guarantee the competitive edge Italy requires. Thirdly, that individualism counts for more than the system. Italy has in fact been the victim of the success of its post-war entrepreneurs, who have not been able to generate their own successors. At the same time, a mediocre political elite has provided intrusive assistance to individual companies, rather than share a far-sighted vision with the business community.

These three misconceptions have led to a fourth one, namely that traditional, ‘Made in Italy’ products are fundamental to the revival of the Italian economy. Such ‘typical’ Italian products can offer high quality and added value but they remain a means, not an end in itself for industry. In the face of low-cost competition from Asia and a flood of counterfeit products, Italy can only defend itself by focusing on what cannot be copied: culture and innovation. To develop these attributes, Italy needs to forget Made in Italy labels and protectionist trade measures, and support a competitive “industrial system”. Small businesses are important but no longer sufficient, Guido Barilla insisted, since “innovation can only consistently be achieved by large manufacturers”. The success of Ferrari shows how raw materials from every corner of the world can be assembled with vision and innovation that are truly Italian. Similarly, “Italian pasta is the best in the world, he concluded, thanks to a manufacturing culture based on a wise selection of raw materials and state-of-the-art technology.”

## **Slow Food: an endangered species?**

*Giacomo Mojoli, International Board, Slow Food Movement*

Giacomo Mojoli described the philosophy of Slow Food. Founded in Italy in 1986, it has developed into an international movement with more than 80,000 members across all five continents. Slow Food has sought to move the balance in food away from quantity and towards quality, he explained. It has developed a number of micro-projects in different countries in order to preserve and promote local products and cultures. Giacomo Mojoli agreed with Guido Barilla that there has been too much focus

on clichés of folk traditions, which the media have notably communicated. However, he insisted that Slow Food's support for quality in local areas is economically relevant in driving exports.

But the idea is not to flood the world with Italian products, he explained, but above all to educate consumers as to the added value of each product and its specific history. Slow Food has pursued this education goal by organising a number of events, notably the Salone del Gusto, held every two years in Turin. It has also supported the inauguration of a University of Gastronomic Sciences this year in Italy. The university's role will be to train chefs, food experts and other people responsible for food and cuisine. This shows how Slow Food is not just about spending more time over meals but also thinking about the future, he argued. "Time is not money, Giacomo Mojoli concluded, it will increasingly be about investing in the future."

## **Fuelling the legend of the Italian sports car**

*Giuseppe Greco, Vice Chairman & CEO, Automobili Lamborghini SpA, Italy*

Giuseppe Greco described how Lamborghini has succeeded in turning around its business performance while remaining true to its fundamental values and brand image. After being acquired by Audi in 1998, Lamborghini launched a review of its strategy. It identified core characteristics that the public associated with the brand: "uncompromising, challenging, exclusive, extreme, aggressive, sensuous, Italian". The sports car maker then embarked on a five-year, 350 million euro investment in order to renovate the brand for the 21<sup>st</sup> century.

Crucially, Lamborghini decided to branch out from its traditional single-product strategy in order to drive higher sales and thereby finance future innovation. In addition to a new version of its classic 12-cylinder sports car, Lamborghini developed a second product line. This represented both a "cultural leap forward" and a "technological revolution" for the company. In terms of organisation, Lamborghini had to adapt to a much larger production base, doubling its number of employees. Technically, the company had to master a new car design while preserving the familiar Lamborghini image. The new model, the Gallardo, enjoyed huge success, allowing Lamborghini to sell more units in one year than it had sold in the previous three. The car maker is now launching a third model and has also established a merchandising company. Summing up, Dr Giuseppe Greco stressed the importance of combining experience and technology, since "when talking about a product as complex as a sports car, one should bear in mind that the emotion, the style and the form have a direct link with the performance, the technical characteristics and the materials."

## **Business session 5: All Roads Lead To People**

### **Fire, Ready, Aim – Winning through people in tough times!**

*René Carayol, Author & Broadcaster*

The human mind prefers never to take risks but risks must be taken because "the greatest hazard of life is to risk nothing", René Carayol argued. In business, this means that you need to manage a little less and lead a little more. The current business environment, marked by recession, speed, globalisation and innovation, has made change vital. This context has thus highlighted the difference between "traditional" organisations – based on strong technical skills, experienced management, safety and security, cost reduction and service provision – and "contemporary" ones, which are defined by vision,

leadership, relationships, collaboration, communication and a commercial approach. Sir John Stevens, head of the Metropolitan Police in London, offers an example of the kind of outstanding leadership needed to turn organisations round and to get people “on the bus”. Faced with chronic failure and a negative public image at the Met, Stevens motivated people by offering a simple vision (“Make London the safest major city in the world”) and by listening to his 26,000 staff through a series of visits.

Fast, contemporary organisations thus embrace risk and create open cultures. In particular, they possess leadership – based on a desire to win and be different –, culture – based on the ability to change –, and collaboration – based on the knowledge that nothing can be done alone. The people strategies of such progressive organisations reflect the mantra “Think talent, not skills”, René Carayol stressed, because “It’s not about academia, it’s not about skills, it’s about personality.” One example is Richard Branson’s Virgin Atlantic, which managed to launch its first flight from Heathrow only 13 weeks after presenting its project. At the same time, successful companies should always have a ‘Plan B’, because such good times only represent a “temporary monopoly”. But on a general human level, an awareness of the contrasts and inequalities of the world should act as a reminder of the need for acceptance, understanding and education. The fact that those of us who simply have money in the bank and in our wallet are among the wealthiest 8% of the world’s population should motivate us to live life like it’s heaven, René Carayol insisted.

## **“I Shop therefore I am”**

*Christoph Grunenberg, Director, Tate Liverpool*

In today’s world, “shopping and consumption are essential human activities”, Christoph Grunenberg argued. The importance of shopping was demonstrated in the aftermath of the September 11 terrorist attacks: in the US, political leaders urged the population to continue their normal lives by shopping, while in the UK, the economy avoided crisis because of citizens’ devotion to shopping. But consumption today is a complex and creative act. Academic theory has recognised this: whereas it used to view consumers as controlled and regulated subjects without individual will, it now sees that “consumption is a much more complex and multi-layered process than just manufacturing, advertising and selling a product”. The great failures of marketing history demonstrate the complexity of consumers, and large companies now employ style scouts to feed back information from consumers.

Against this background, Tate Liverpool decided to stage an exhibition entitled *Shopping: A Century of Art and Consumer Culture*. The exhibition thus sought to illustrate the relationship between art and commerce. These two spheres are closer than we imagine, particularly in the strategies of seduction they use. Three examples from the *Shopping* exhibition describe different types of shopping environment and artists’ response to them. Firstly, “The American Supermarket”, which was a recreation of a 1964 New York show that sold products designed by artists like Andy Warhol. The event was a celebration of the supermarket as a dominant post-war form of retailing. “New Supermarket”, meanwhile, presented a simulation of the Tesco Express convenience concept. The exhibit was successful because it allows us to step back and contemplate something very familiar. In particular, the installation revealed the order, abundance and illumination of the supermarket. “One Pound Market”, finally, created a bargain store offering goods imported from the artist’s home country of Thailand. The work illustrated a traditional, market style of commerce, while also addressing the reality of today’s globalised trade.

## Closing remarks & handover of CIES chairmanship

*Pierre-Olivier Beckers, President & CEO, Delhaize Group, & outgoing Chairman, CIES – The Food Business Forum*

*Claude Hauser, Chairman, Migros-Genossenschafts-Bund, Switzerland, & incoming Chairman, CIES – The Food Business Forum*

**Pierre-Olivier Beckers** gave a progress report on the five priorities he had set two years ago on becoming CIES Chairman. Firstly, to bolster the international presence of CIES: as planned, the association has opened a Japanese office and established links with the retail sector in China. This international coverage is moreover reflected in the 42 countries represented at the Rome Summit. Secondly, to help advance progress towards technical standards: this area is truly beginning to bear fruit and the CIES conference “Tag, Trace & Synchronise” in Paris this October will provide the retail point of view on the key issues. Thirdly, the Global Food Safety Initiative (GFSI): the initiative has provided real tools for retailers, including the Guidance Document, which is now in its fourth edition. Fourthly, to improve the image of food retailing around the world: the focus is on communicating because retailers *are* contributing to society. The Food Business in Society (FBiS) initiative has been launched and Pierre-Olivier Beckers invited companies to join the effort “to communicate the value we are bringing to communities”.

But while there has been really good progress on these four priorities, in the fifth priority area – clarifying the role of the industry associations – “we’re going backwards”, Pierre-Olivier Beckers warned. CIES has worked hard and delivered a more focused strategy, he explained, but overall the sector deserves a gold medal for “duplication, waste of money and complexity”. “We need to keep this industry simple”, he insisted, instead of “allowing too many associations to do the same thing every day”.

**Claude Hauser** thanked Pierre-Olivier Beckers for providing an excellent ‘Roadmap’, which has been approved by the CIES board. Both CIES and all companies in the sector will have to work further on the five objectives, he stressed. Reacting to the content of the Rome Summit, he noted the importance of people and of the position of retailing at the interface between manufacturing and consumers. “People in our industry are of high quality and motivation”, he argued, and these qualities need to be recognised by all stakeholders. Looking ahead, he pointed to obesity as a key issue that would have to be put on the ‘Roadmap’ for the next few years.

## Keynote closing address:

### Leadership on the edge

*Robert Swan, Polar Traveller & EU Ambassador for the Environment*

Robert Swan summed up his polar expeditions as a story about people and above all as a story of personal leadership. “If we’re not leading ourselves as best we can, how can we expect people to follow our values?”, he insisted. Having decided at the age of 11 – inspired by a film on Antarctica – to be the first person to walk to the South Pole, he spent the next 22 years working towards that goal. Some people argue that he is ‘crazy’ but if you consider that half the world spends \$1 billion on trying to lose weight, while the other half is hungry, it becomes less easy to say what is crazy. In order to raise the \$5 million needed for the South Pole expedition, Robert Swan spent seven years working to get sponsorship, including four years trying to persuade Jacques Cousteau to lend his name to the expedition. The famous French explorer agreed on the condition that Swan and his team “show leadership” by removing their rubbish afterwards. To survive in Antarctica, Swan’s team followed two simple rules: to tell each other the truth and to try and listen. Having chosen not to carry any communication equipment out of respect for the original polar explorers, the team had to show

discipline, for example by following the route chosen by the person at the front. “If we had stopped for feedback, he noted, we would have talked ourselves to death.”

The team reached the South Pole after 70 days and 1,600 km but was immediately confronted with the news that the ship due to collect them and their rubbish had sunk. 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. He accumulated personal debt of \$1.2 million but the crucial thing was that “as a leader, people know when you say something, you’re going to do it”. His 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 led a team of inexperienced volunteers. Again, the importance of protecting the environment was clear as Swan’s team once more found abandoned rubbish. After successfully completing his North Pole trek, Swan then attended the Earth Summit in Rio de Janeiro in 1992, committing himself to carrying out global and local missions with his remaining funds. His global mission involved bringing a team to Antarctica to collect rubbish, a task that took over seven years. The mission boat now takes business and young people to Antarctica every year to make sure the region stays clean. The local mission, meanwhile, focused on Africa and Aids education. Swan’s boat was loaded on a lorry and went on the longest road journey ever (8,000 km) in order to campaign against Aids. Since then, the team boat has circumnavigated Africa, encouraging local communities to clean up beaches and providing education on Aids. “You have to look after people if you want value”, Robert Swan concluded, including those who are not born, who are the future.

*Mark your diary !*

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