



The World Food Business Summit 2005

Budapest, Hungary, 22-24 June 2005

What is food retailing today?
Managing a **SHIFTING** centre of gravity



Executive Summary

Budapest Summit Quotes

“Various types of retailers are successfully adapting to change. Discount is not the only solution to discount.”

Claude Hauser, Chairman of CIES - The Food Business Forum & Chairman of the Board of Directors, Federation of Migros Cooperatives

“China’s middle class is the biggest in the world and it wants convenience.”

Xavier Naville, CEO, Creative Food

“I do not believe in the crisis of the hypermarket.”

Michel-Edouard Leclerc, Co-President, Centres Distributeurs E. Leclerc

“It is up to us to shape our future by responding to shoppers’ varying definitions of value.”

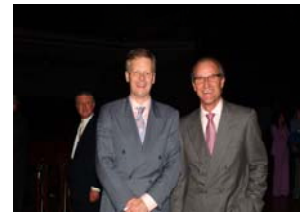
Dominique Reiniche, President, European Union Group, The Coca-Cola Company

“We are moving from distribution to ‘redistribution’. Customers are more and more oriented towards usage, and less and less towards possession.”

Pierre Kosciusko-Morizet, Co-founder & CEO, PriceMinister

“We have got to stop pretending about CSR [Corporate Social Responsibility] and start doing practical things.”

Mel Young, Social Entrepreneur; Director, Homeless World Cup; Editor-in-chief, New Consumer; President, International Network of Street Papers



Budapest Summit Conclusions

A shifting centre of gravity: Asia and Central & Eastern Europe are continuing to redefine the world economy. The retail sector is evolving fast in these regions as the middle classes expand and national and international operators invest in stores and supply chains. But the shifts in the world economy are not just geographical but societal: technology and information have changed everyday relationships, with consumers dictating increasingly what they spend on which products and how.

Opportunities in tough times: discount operators have taken advantage of shifts in consumer behaviour and market conditions to become part of the retail mainstream. However, shoppers’ varying needs are not covered by discount alone: innovative and reactive non-discount retailers are enjoying success around the world, from independents to international chains and from food specialists to diversified retailers.

Practical courage: long-term success in business and in society requires practical decisions that respect basic principles. Providing this kind of leadership is not easy today given the pressure of stakeholders from investors to the media to political protestors. Business and civil society still have a lot to learn from each other in order to balance the decision-making and ethical qualities that contribute to long-term development.

Opening Session: A shifting centre of gravity

Welcome from the CIES Chairman

Claude Hauser, Chairman of CIES - The Food Business Forum & Chairman of the Board of Directors, Federation of Migros Cooperatives



Opening the CIES World Food Business Summit 2005, Claude Hauser argued that retailers and suppliers need to work together to define the new value-added for consumers. These are tough times, he stressed, in terms of competition and consumer confidence. Globalisation and competition have opened up new challenges, particularly for manufacturers. He thanked all delegates for contributing directly or indirectly to the Summit, which is the annual forum for the leaders of the industry. In terms of attendance, he noted that the 870 participants represented 45 countries, with retailers accounting for 30% of the audience.

Introduction by session moderator

Jacques-Etienne de T'Serclaes, Chairman of CIES Summit Committee and Global Retail & Consumer Leader, PriceWaterhouseCoopers



Jacques-Etienne de T'Serclaes highlighted two major types of shifts in gravity that are taking place on the world's economic map: **geography** and **connectivity**. In terms of geography, the centre of economic gravity is shifting to the East – towards Eastern Europe and Asia. Across the four time zones from Mumbai to Shanghai there are 40% of the world's population and average GDP growth of 8-9%; Russia and Eastern Europe including Turkey have a combined population of 315 million and average GDP growth of 5%. The peoples of these countries are creating a “mindshift”: they are opportunistic, pragmatic and ready for change, whereas Western Europeans have adopted a defensive mentality. Connectivity, meanwhile, is about the speed of change and is the outcome of the virtual world of information technology. There are now over 1 billion mobile phones in use worldwide and over 10 billion SMS were exchanged on the last Chinese New Year. The Summit has been designed to show what this all means for the retail and consumer goods sector.

Keynote Address: A shifting centre of gravity

Dr Bernard Kouchner, Former Minister, Co-founder and Former President of Médecins du Monde and Nobel Prize-winning Médecins Sans Frontières; served as Special Representative to U.N. Secretary General Kofi Annan in Kosovo.



Dr Bernard Kouchner called on food companies to join action to address the current famine emergency in Niger. He invited companies to provide industry specialists to participate in crisis relief over a three-to six-month period. While acknowledging that assistance is not the long-term solution for developing countries, he insisted that food is essential along with medicine in order to treat hunger. He encouraged

delegates to follow the example of pharmaceutical companies, which are now contributing to the fight against AIDS. Addressing the theme of the session, “A shifting centre of gravity”, he argued that while certain indicators like GDP and demographics are shifting, Africa remains “a shadow” over globalisation. We are living in an unacceptable world, he said, in which 30,000 children die every day from preventable diseases.

He also singled out food safety and genetically modified organisms (GMOs) as major food-policy issues. In food safety, the means to detect risks have improved, but on the other hand the food chain has become longer and new technology has created new risks. Anxiety has spread and consumers feel they have lost their bearings. The consequences are seen in various spheres from politics, with governments in several countries getting into trouble, to culture, where values have clashed with food safety standards. GMOs, meanwhile, have proved a difficult problem; while new technology has always led to debate, GMOs raise big issues because scientists cannot give guarantees one way or the other. Scientists need to be completely transparent and publish all the information, he argued.

Salad Days: China's vegetable revolution

Xavier Naville, CEO, Creative Food



Xavier Naville shared the story of the company he founded in 2000 as the first and only producer and distributor of fresh-cut vegetables in China's retail market. The company operates four factories across the country that supply retail and foodservice outlets, including 1,500 KFC restaurants. So why sell salads to the Chinese? Xavier Naville pointed out three key trends:

- *Convenience*: China's middle class wants convenience.
- *Safety*: the Chinese are concerned about health issues, particularly in the light of the SARS and chicken flu outbreaks.
- *Fresh*: the Chinese will leapfrog to fresh products without going through the steps of canned and frozen products.

In terms of lessons learned, Creative Food had to shift from being initially geared for export to refocus on the growing domestic market. Other lessons were: “China is not cheap” (low labour costs are offset by costs from red tape and industrial fragmentation); financing for small firms does not exist (a big problem during the dot-com crash); and the government is a key player in every sector (so regular communication with it is crucial). In a fragmented farm sector, controlling the quality and consistency of supply is the biggest challenge for Creative Food. It has addressed this issue by taking a practical approach, using equipment that is designed and built locally. While other producers are focused on exporting, Creative Food positions itself as the partner of choice for modern retail in China. The fresh-cut vegetable market is still in its infancy in China (with 0.01% of total produce sales), but is growing: the company's sales have increased fivefold over the past two years.

Two hundred years + one decade. A unique Hungarian story

Peter Zwack, Chairman of the Board of Directors, Zwack Unicum Co Ltd



Hungary has had a very difficult history, much of it under foreign occupation. Peter Zwack's family lost everything in 1948 when their factory and homes were confiscated by the Communists. The family had been the owners of the leading distillery in Central Europe since 1840, producing over 220 liqueurs and brandies, as well as Hungary's national drink, Unicum. The young Peter Zwack fled with his family to the United States, where he began 40 years of exile. The family retained control of the business, turning down takeover offers and winning its litigation against the Hungarian state for the return of the family trademarks. Peter Zwack later moved to Italy, where he resumed production of the original Unicum and developed an interest in wine.

The family returned to Hungary in 1988 after receiving overtures about a joint venture from the now Communist-run factory. They returned to a grey world of restricted liberties and economic deprivation. In 1989, they decided to enter into a joint venture with the state, becoming the first leading Hungarian industrialists to return home. The venture was signed the day before the visit of President Bush to Hungary, the first by an American President to a Soviet-bloc country. Things started to change and, soon after, the Berlin Wall came down. In 1990, the first democratic Hungarian government was faced with the unprecedented challenge of turning a monolithic society into a free-market economy. Peter Zwack himself served as ambassador to the United States and then as a member of parliament.

Hungarians have proved quick learners: over the past 15 years €47 billion in foreign capital has been invested in Hungary, over 50% of the total for all ex-Soviet-bloc countries. Out of the world's 50 largest multinationals, 39 have at least some part of their operations in Hungary. Foreign firms were attracted to Hungary because the country always insisted on paying back its debts, and because it was seen as a platform for Central and Eastern Europe. As part of a successful privatisation programme, Peter Zwack re-purchased the Zwack Company from the Hungarian state. The company has since gone public, with the family retaining a majority stake alongside Diageo and small shareholders. It largely dominates the Hungarian wine and spirit market with almost 40% market share. Thanks to an efficient, socially-oriented human resources policy, the company was able to scale down 13 factories to two with modern technology. Above all, Peter Zwack uses positive thinking, as summed up by the saying on his door, "The future is now".

Business Session 2: Reinventing formats for shoppers

Moderator's Introduction: What's happening in our stores? Who is in there?

Jürgen Elfers, Financial Analyst, Commerzbank



At last year's Summit in Rome, Jürgen Elfers described how discounters were in the fast lane of top and bottom-line growth. This trend is continuing: Schwarz (Lidl) is again aiming for double-digit growth this year, which will bring it to €40 billion in sales. As a consequence retailers and suppliers are suffering from pressure on their margins. Retailers are now increasing their own-

brand ranges to protect margins: Delhaize, for example, has raised its private-label penetration to 33%, while Leclerc is aiming for over 50%. As a result, products are being scrutinised and having a lean assortment and high inventory turns are crucial. The battleground is increasingly in the middle, Jürgen Elfers noted, in between discount and upscale shoppers.

Aldi-isation - a consumer phenomenon

Stephan Grünewald, Managing Director, Rheingold Institute for Qualitative Market and Media Research



Rheingold has explored the “Aldi-isation” of German consumers through psychological-style studies carried out in 2002 and 2005. The 2002 report highlighted “reducing complexity” as a major consumer trend that was driving discount growth. Specifically, consumers were looking for four things:

Clarity: consumers have faced a “flood of products” in stores. In contrast, Aldi and Lidl free consumers from having to choose between so many products, thereby reducing “mental costs” rather than just economic costs.

Orientation: this flood of products (e.g. line extensions, product variations and private labels) has shaken consumers’ faith in brands.

Predictability: the introduction of the euro and constant price campaigns by supermarkets have created a “flood of prices”. In reaction, consumers flee to the stable-priced Aldi world.

Security: retailers are becoming less “homey” because they constantly rearrange products and other elements in the store. Discount stores have a clear and constant range, look and affiliation.

2002 was thus a period of “radical reduction of complexity”, during which there was a boom in discount supermarkets in Germany. Aldi, for example, claimed the highest percentage of primary shoppers among German retailers, followed by fellow discount chains Lidl and Kaufland. However, the euphoria about discount stores has died down, Stephan Grünewald argued. The 2005 Rheingold survey shows that consumers have become more discriminating: they now apply a range of criteria to selecting brands and retailers. Discount stores have reacted to this trend by extending their fresh food offer and adding drugstore and luxury items. Other retailers have the potential to tempt customers, but these shoppers still feel that their needs have not been taken into account by traditional retailers, Stephan Grünewald concluded.

A summary of the 2005 edition of Rheingold’s survey was released at the Budapest Summit. To receive a copy, please contact Stephan Grünewald: rheingold@rheingold-online.de

Why my format(s) are right for my customers

Case study 1

Michel-Edouard Leclerc, Co-President, Centres Distributeurs E. Leclerc



Michel-Edouard Leclerc said he did not believe in “the crisis of the hypermarket”. Despite external constraints, his group will continue to develop the hypermarket as the best long-term response to consumers’ needs, he stressed. Leclerc continues to enjoy success as the largest individual retail banner in France. The group is also aiming to reinforce independent retailers in Europe by developing a network

alongside existing partners Système U and Conad. In terms of organisation, Leclerc's model provides financial and intellectual rewards for store owners, while maintaining the group's basic philosophy of democratising consumption by selling the widest range of products at cheaper prices.

Leclerc's aim is not to be a discounter, he stressed. However, legislation has brought two important constraints: planning rules mean that Leclerc generates only 35% of its sales in cities, while the so-called Loi Galland prevents the retailer from passing on supplier rebates to consumers. In this context, the group is ready to adapt by opening hard discount stores to complement its hypermarkets. Nevertheless, Leclerc continues to believe in brands, Michel-Edouard Leclerc insisted. There is in fact a contradiction in consumers given that they say brands are too complex, but they are also against homogenisation. Discount has the potential to increase its market share to 20% in France this decade, he predicted, but the channel's growth will then slow as it becomes more upscale.

Case study 2

Gordon R. Campbell, CEO, SPAR International



The competitive environment is marked by falling shelf prices and a squeeze on margins. Spar has responded to these challenges through further international expansion and by redeveloping store formats. In Central and Eastern Europe, the group has 384 stores with sales of €1.5 billion. A first Interspar store opened in Croatia on June 14th and the first of 10 planned Spar supermarkets is due to open later this year in Romania. In terms of store formats, the group has followed a process of “continuous productivity improvement”, from a study period (e.g. the North American Retail Seminar) and trial & train phase (e.g. merchandising master-class) through to implementation of flagship stores and communication using manuals. Examples of these flagship stores include the new generation Interspar, which combines the easy-to-shop convenience of a compact hypermarket with a focus on fresh, food-to-go, service and aggressive prices; and the new 500m² Spar concept in Ireland that merges the food-to-go, impulse and top-up elements of a convenience store with the value/core lines and meal replacement offer of a supermarket.

These initiatives form part of Spar's “Towards 2008” strategy. In addition to the “6 pillars of Spar” (“Retail Formats”, “Retail Experience”, “Our People”, “Operational Excellence”, “Competitive Prices” and “The Spar Brand”), this strategy is based on new country expansion. Population and economic growth is fastest in the developing world, particularly Asia. Spar has responded to these macro-economic trends by opening its first stores in China and India over the past year. China's population of 1.3 billion represents a huge opportunity, especially its 100 largest cities that account for 70% of total consumption. Spar's first store, an 8,000m² hypermarket in Weihai, received 16,500 visitors on the opening day. In Africa, meanwhile, Spar operates a network of 859 stores in five Southern African countries that generate sales of €2.5 billion. These examples show Spar's commitment to working with local chains in the developing world. It is essential to foster independent retailers, Gordon Campbell concluded, to have the diversity to give customers choice and value.

Case study 3

David Podeschi, Senior Vice-President Merchandising, 7-Eleven Inc.



David Podeschi cited some demographic trends in the US to illustrate the context of 7-Eleven's current strategy. Consumers are facing real time-pressure; the average person spent 26 more hours commuting in 2000 compared to 1990, while 82% of households have two wage earners. The US is ethnically diverse, with the Hispanic population growing particularly fast. Obesity has also become a concern, contributing to flat growth in most beverage

categories and creating opportunities in fresh products. David Podeschi outlined aspects of 7-Eleven's "Strategic Plan", including:

"Retailer initiative": this is the central principle of the plan and aims to create a 'pull' demand chain instead of a 'push' supply chain driven by vendors.

Distribution: 7-Eleven has faced a chaotic mix of direct store delivery (DSD) from manufacturers and warehouse distribution. This leads to multiple daily deliveries that are a severe challenge, especially for the smaller urban stores 7-Eleven is now focusing on. The group has introduced the "combined distribution centre", or CDC, especially for fresh. Its ideal model is to have as much as possible pass through a consolidation centre so that it can organise two store deliveries a day for fresh and three deliveries a week from other suppliers.

Tech-enabled retailing: handheld terminals are now used, allowing stores to delete slow-moving items and place orders directly with manufacturers based on sales and other trends like weather. This has led to a significant improvement in inventory turns and extensive renewal of assortments (with 2,000 items introduced per year).

Merchandising: 7-Eleven has developed various exclusive products with brand manufacturers such as Hershey and PepsiCo. It has also developed a lot of combinations of coffee, which is a key convenience-store category given that customers only spend on average between one and a half and two and a half minutes in the store, and consume 75% of products immediately in the car. Fresh has become another focus: 7-Eleven has brought the section to the front of stores and introduces new recipes every week.

Case study 4

Arthur Goethals, CEO, Delhaize Belgium



Delhaize was founded in 1867 by the great-grandparents of current Chief Executive and former CIES Chairman Pierre-Olivier Beckers. Arthur Goethals described recent changes to show how an innovative grocer of the 19th century can stay a successful grocer in the 21st century. At group level, Delhaize decided to focus on supermarkets and convenience/neighbourhood stores as formats, and food rather than non-food for its assortment. Faced with the

arrival of Carrefour and the growth of discount, the Belgian division, Delhaize Le Lion, saw that it could not win on price alone. Arthur Goethals outlined 10 "ingredients" in the company's new strategy:

1. **Passion for food:** this was the starting theme and the whole organisation, from buying to store operations and merchandising, has been mobilised to focus on food expertise. This has involved the development of ready meals, organic food, fair trade products, healthy foods,

international foods and fresh food. An important part has been using small and medium-sized enterprises (SMEs) much more than in the past.

2. **Store design:** moving away from standard supermarkets, the company aimed to create “the place where the customer would like to live”. The whole store, from outside to inside, focuses on transparency.
3. **Network of stores:** Delhaize decided to create a network under the Lion symbol to serve customers when and where they want to shop. For example, Delhaize City opened in 1999 not as a convenience store, but as a medium-to-small neighbourhood store that many customers use as their main shopping destination.
4. **Convenience:** this is a major driver of the strategy. Self-service is for Delhaize “the ultimate convenience”. Self-scanning is present in more than 50% of its stores in Belgium and the retailer is creating new modules to turn service counters into self-service.
5. **Added value:** store staff are seen as an incredible asset and, instead of being obsessed by decreasing labour, Delhaize wants to value their contribution.
6. **Private label:** in traditional categories, it is a guarantee of independence, whether in assortment, pricing, margin, merchandising or marketing. In new categories, it shows the retailer’s innovation, for example in ready meals developed with well-known chefs.
7. **Every Day Fair Price (EDFP):** in January 2002 Delhaize changed drastically its price policy, moving away from High-Low. By reducing promotional activity, Delhaize has been able to decrease thousands of prices. At the same time, it has focused more on quality, freshness, innovation and execution as drivers for sales. The supply chain has benefited as there are fewer peaks and therefore less inventory.
8. **Communication approach:** the company sees its stores as the best media to communicate and its associates as the best channels to convince.
9. **Executorial excellence:** given price pressure, it is crucial to be as efficient as possible. Delhaize’s aim is to keep a price difference of +5% with discounters and +1-2% with hypermarkets.
10. **Internal promotion:** the new strategy made people key, since the company relies on them for innovation, customer service and food safety.

While supermarkets and hypermarkets overall have lost market share to discounters, Delhaize raised its market share in Belgium from 23.54% to 25.67% between 1999 and 2004. The retailer has in fact copied a lot of initiatives of other retailers, Arthur Goethals noted, in what it calls “C&D”, or “Copy and Development”. Above all, by anticipating trends in food consumption the company has respected its founding values from 1867, which included bringing value and being close to your customers.

Home advantage: how a national makes life challenging for multinational competitors

Case study 1:

S. Chandra Das, Chairman, NTUC FairPrice



Chandra Das explained how NTUC FairPrice aggressively leverages “home ground advantage” in the face of strong foreign competition. Like in other Asian countries, the retail market in Singapore has seen an influx of foreign retailers since the Asian financial crisis. As an illustration, FairPrice is today the only Singapore-owned chain among the top five supermarket operators, compared to three before 1997. The company has gained a strong foothold, leading the supermarket sector with over 50% market share. In contrast, ‘mom and pop’ shops are fading out because of intensified competition.

So how has FairPrice managed to hold its ground? Chandra Das outlined the following areas:

- **Cooperative status:** FairPrice has a strong base of half a million members who receive rebates at the end of the year according to their purchases.
- **Best value:** FairPrice's traditional value positioning has been maintained by its private label range, which has almost doubled to 1,500 items since 2000, and cost savings supported by centralised warehousing, direct overseas sourcing and heavy investments in IT.
- **Location is key:** the retailer is literally everywhere in Singapore, including in housing estates, train stations and suburban malls. To maintain this advantage, FairPrice has built alliances with property developers in order to secure good locations.
- **Leverage on fresh food:** the growth potential for fresh food is tremendous in a country where half of household expenditure goes on this area. FairPrice overhauled its operations to become the first supermarket chain in Singapore to meet HACCP standards. The company also opened Singapore's first retailer-owned refrigerated distribution centre in 2004.
- **Convenience for modern city living:** in addition to having good locations, the retailer caters to busy customers through online shopping, convenience packaging, and convenience formats Cheers and FairPrice Xpress.
- **Strong branding:** FairPrice's strong brand equity – the highest among Asia Pacific retailers according to ACNielsen – is the result of public relations, marketing campaigns and its social mission, which is deeply etched in the minds of consumers.
- **Loyalty programmes:** FairPrice's membership represents a ready database for FairPrice to monitor customer preferences. However, about half of the customer base are not cooperative members, so the retailer tries to lock in these customers through loyalty initiatives such as the Baby Plus and Wine Clubs.

Case study 2

Servet Topaloglu, Vice President, Tansas Tic AS

Turkish food retail market



Both the traditional and organised retail markets are growing. The organised trade's growth is much faster, with double-digit increases in recent years. However, despite their heavy investments, the organised retailers have only 36% of the total market, compared to 49% for traditional channels and 13% for 'semi-organised' local retailers. Multinational retailers have invested more than US\$2 billion in organic growth, but have yet to establish market leadership and have now turned to acquisitions. Successful national organised retailers have combined operational efficiency with service and 'emotional touch'.

Tansas business strategy (since 2002)

1. **Segmentation.** Tansas has chosen to focus on the supermarket segment. Through its four format types, the retailer is "everywhere within the supermarket business, nowhere outside this business". In terms of consumer segments, the focus is on certain regions rather than particular income groups. In assortment, Tansas only offers "food-related non-food", such as kitchen wares.
2. **Differentiation.** A wide selection of fresh food is offered on open shelves, like in the traditional bazaars. The retailer's private labels, meanwhile, act as price leaders with a quality and satisfaction guarantee. Tansas' communication makes simple promises (e.g. customers

can have a refund if not satisfied with a product) to show service differences compared to both traditional retailers and other organised retailers.

3. **Operational efficiency.** Tansas applies internationally accepted norms and standards, such as an automatic ordering system, a Score Card system (for suppliers and employees) and food safety standards.
4. **Tansas in figures.** The retailer's sales grew by nearly 50% in both 2003 and 2004 and it is aiming for 18% growth in 2005 to reach US\$950 million. These sales increases have been driven by greater productivity in sales per m², with total sales area rising only slightly.

What do shoppers mean by “value for money”?

Dominique Reiniche, President, European Union Group, The Coca-Cola Company

Peter Child, Director & Leader of Global Retail Practice, McKinsey & Company



Dominique Reiniche and Peter Child presented the findings of a pan-European consumer survey conducted by the Coca-Cola Retailing Research Council Europe (CCRRCE) and McKinsey & Co.* The background to the study was the growth of discount operators, which represent a challenge to both traditional grocers and brands. Discounters have been around in Germany since the 1950s, but they have taken advantage of changing shopper behaviour to grow rapidly across Europe over the past 10 years. The reason why discounters are so successful in Germany, Peter Child stressed, is the same reason why non-discounters are successful in other countries: shoppers think they provide good value for money. It is not just about price but the different ways in which shoppers define value.

The survey covered 10,000 shoppers in five countries: France, Germany, Italy, Poland and the UK. CCRRCE and McKinsey broke down the respondents into seven shopper segments: Pure Premium; Quick Quality; Demanding Shopper; Uninvolved Shopper; Value Loyalist; Value Hunter; and Pure Price. In this spectrum, the first segments represent a broad definition of value, while the latter are the most price-focused. The spread of shoppers between these different segments varied between the countries. Examples of country results include:

- In **Germany**, almost 50% of shoppers fell into the Value Hunter and Pure Price segments; these shoppers in turn make up 66% of primary shoppers at discount stores.
- In the **UK**, 31% of respondents fell into the Pure Premium category. Discount stores have much less appeal, with 80% of non-discount shoppers saying that their primary store provides good value.
- In **France**, the largest shopper segments were Quick Quality (i.e. cash-rich, time-poor shoppers) and Value Loyalist (i.e. natural hypermarket shoppers looking for the best deals in a single store). They accounted respectively for 27% and 23% of respondents.

Overall, there is reason for optimism among non-discount retailers because “most of the market is up for grabs”. This is because naturally discount shoppers only account for around 20% of the European shoppers surveyed. Non-discount grocers thus need to focus on the value opportunity rather than the discount challenge. In particular, they need to “become famous for something”, for example through bold promotions, targeted service or exclusive products. These initiatives need to be supported by operational efficiency, such as streamlined labour scheduling for service areas or by putting fast-moving products on wheels all along the supply chain. It is up to us to shape our future, Dominique Reiniche concluded, by responding to shoppers’ varying definitions of value.

*“Responding to Discount: A New Business Model for Food Retailers?” An executive summary was released at the Budapest Summit. The full report will be available online in August at www.ccrcc.org

Business Session 3: Is technology really the future?

Introduction by session moderator

Krisztina Bombera, Broadcasting journalist



Echoing Peter Zwack’s presentation, Krisztina Bombera pointed out how much Hungary has changed since the Communist period. Back then, families used to travel to Vienna with as much foreign currency as they could get together in order to buy fridges for their homes. Today, eight out of 10 Hungarians have a mobile phone, although internet access remains below western levels at 30%.

How technology is reinventing retail today

Pierre Kosciusko-Morizet, Co-founder & CEO, PriceMinister



Launched in 2001, PriceMinister is today France’s third-largest e-commerce site. It works by linking sellers of products with buyers in a five-step process: the seller lists an item with the price; the buyer chooses the product and pays PriceMinister; the seller sends the product to the buyer; the buyer confirms reception of the product on the site; PriceMinister then pays the seller after deducting its commission. In other words, cash goes through PriceMinister, not the products. The range of goods sold on the site has expanded from books, CDs, DVDs and video games to consumer electronics, white goods, clothes and now cars. The company is planning a European roll-out from 2006 starting in Spain and Italy. Pierre Kosciusko-Morizet explained the development of PriceMinister as follows:

1. **Consumers look for the best prices.** Buyers have “the mindset of the best price”: online price comparison is easy and it has become a kind of game to search for the cheapest. But to retain customers, you have to offer them great choice and service on top of price. The success of the PriceMinister model is due to the fact it brings all three: price and choice on a much broader scale than classified ads, together with service that fully guarantees buyers and sellers.
2. **What have we learned from our customers?** We are moving from distribution to “redistribution” as customers are more and more oriented towards usage, and less and less towards possession. Digitalisation has opened the way in music and now consumers are challenging their way of living, for example through the social phenomenon of “C2C” sites. Some customers become “professional buyers”, who spend a lot of time looking for the best deal, and sellers, who then buy differently because they understand what it is to be a retailer; some of them then become professional sellers.
3. **Our members: when B2C mixes with C2C.** There are more and more professionals on intermediation sites; at PriceMinister, they represent almost 40% of sales. These professionals

include manufacturers, wholesalers and small shops, as well as individuals who start professional-seller companies. Retailers are thus using sites as new distribution channels.

Does RFID represent a quantum leap for our industry?

Zygmunt Mierdorf, CIO & Member of the Management Board, Metro Group

Yes, RFID is going to make a significant difference to our industry, Zygmunt Mierdorf argued. It will fundamentally change all our business processes, improve the shopping experience of customers, and reduce expenses in the supply chain. As a warning, he noted that MP3 technology was first developed in Germany, but German electronics companies failed to see its potential and the value creation went overseas – notably to Apple, which has sold 50 million iPod music players.



So what are we going to do with RFID in retail? Today, we have got to deal with complexity – for example from price wars and smart shoppers – and technology can be used to respond. Metro Group’s vision is “to be the leader of the world’s most successful networked organisations serving customers”. RFID is a key part of this and Metro shares it with employees (by explaining process changes), suppliers (by involving them in pilots) and consumers (through the Future Store Initiative that incorporates RFID smart shelves). Metro has moved from a trial at its Future Store in 2003 to the start of an RFID roll-out in 2004. It has been a success, Zygmunt Mierdorf argued; benefits have included a reduction in the time for receiving pallets from 90 to 70 seconds. Of course there are still issues to be resolved, but Metro has developed innovative solutions with its partners, such as a tag developed by Nestlé with an overhanging flap that improves reading rates.

Having launched its phase one (roll-out for logistical units and switch to the Gen. 2 global standard), Metro is ready to launch its phase two in 2006. This will involve retail units (cartons), as well as reusable tags for the textile industry at the end of next year. Overall, RFID is not only about optimising operations and the customer experience, it is also a unique opportunity to position the retail industry as innovative, Zygmunt Mierdorf emphasised. The RFID highway exists, so it is up to you to decide whether to say yes to standards and to growth, he concluded.

Business Session 4: The knowledge shift: Lessons to be learnt from other businesses

The Gene of Commerce

Paolo Pellizzari, Photographer



The starting point for Paolo Pellizzari’s project was a photo he took of a shop on a small Greek island. The shopkeeper clearly had talent and talent is something you are born with. Paolo Pellizzari then decided to go around the world to capture this talent in a collection of photos. He explained the “gene of commerce” as follows:

What is the gene made of? The gene consists of seduction (50% of the gene), adaptation, and the more technical qualities of calculation and method.

Families of genes: there are three types of commerce gene: the craftsman, the logistician and the medium (i.e. creating a world, not just a product).

Survival strategies: the gene can make a profit in one of three ways: through unique suppliers and products; location; or marketing and events.

Interaction with other genes: the gene forms part of a transaction equation; it provides both competences and pleasure (sensual and intellectual). This is important since you are receiving the buying power of the customer, so you have to give them reasons to buy.

The vulnerability of the gene: risks include too much process and not enough life; a failure to transfer competences through the company; and a lack of monitoring of macro-economic changes.

Off-balance-sheet items: fair trade often ends up in the wrong place. Equitable commerce is much easier if instead of giving profit to suppliers you spend time with your customers to see they are happy. Sustainable commerce can also be developed by recycling goods for sale. Instead of thinking of “share of stomach”, Paolo Pellizzari concluded, let’s have a “share of life”, by sharing the lives of consumers.

Chef as best sofa salesman?

Jan Kjellman, Managing Director, IKEA Food Services AB

IKEA Food Services is based on the simple observation that people who eat at the restaurant stay longer in the store and buy more. More specifically, the division’s mission is: to generate store traffic; to strengthen IKEA’s Swedish profile; to offer co-workers good meals at low prices; and to act as an in-house media channel that also generates a profit. The origins of IKEA Food Services date back to 1958 when IKEA founder Ingvar Kamprad discovered that customers were leaving the store because they were hungry. The restaurant concept was launched the following year and is now part of 175 IKEA stores in 23 countries.



Jan Kjellman described the four concepts operated by IKEA Food Services:

- **The IKEA Restaurant:** the restaurant menu combines a Swedish part, to strengthen IKEA’s identity, and a local part to appeal to customers and allow an easier price comparison. As an example, the restaurants sold 2.5 million breakfasts at €1.50 each in the first year after being launched in three countries. The restaurants are also positioned as family-friendly, with adapted menus, small portions, a play-area and other facilities.
- **The Swedish Food Market:** this area, which sells around 150 Swedish specialities such as meatballs and salmon, strengthens again the retailer’s Swedish identity. It also allows customers to take home what they tried in the restaurant, and supports the low-price profile.
- **The Bistro:** this outlet is positioned at the exit to give a final positive impression of the store with “impossible low prices”. The offer consists of well-known, easy-to-prepare local food.

In Sweden, the Bistros launched low-price hotdogs in the late 1980s and sold 7 million in 2003.

- **The Staff Restaurant:** the aim is to offer nutritious food in a pleasant and relaxing atmosphere. The motivation for IKEA is to distinguish itself from other retailers and to take care of staff.

Overall, IKEA Food Services generated turnover of €515 million for the year to August 2004, driven by 120 million visitors (or one in three IKEA visitors). In terms of organisation, the division purchases Swedish products centrally and fresh products locally. It transported 36,000 tonnes in 2004, supported by nine distribution centres. In terms of quality, IKEA Food Services requires that food purchased involve minimal transport and be free of antibiotics, hormones, meat-and-bone-meal, and GMOs.

From coffee roaster to a global retail player: the Tchibo Story

Dieter Ammer, CEO, Tchibo Holding AG

Tchibo's history



The company was founded in Germany in 1949 as a mail-order coffee business. Non-food was started in 1973 and diversification continued in 1974 with the acquisition of a minority stake in cosmetics manufacturer Beiersdorf. Tchibo has since acquired and divested a stake in cigarette maker Reemtsma, taken majority control of Beiersdorf and, most recently, acquired French speciality retailer L'Homme Moderne. The group is 100% privately-owned by the Herz family.

Dimensions of the business

Tchibo's activities span a number of product segments (e.g. food, non-food and services), sales channels (e.g. grocery retail, catalogue, internet) and regions (Western Europe, Central Europe and Asia). In Germany, the company has over 50,000 outlets, comprising 950 standalone shops, 16,000 'shop-in-shop' outlets in bakeries, and a further 36,000 in-store areas in supermarkets. Tchibo's unique offering combines (in a single 60-100m² store) premium packaged coffee, a high-traffic coffee bar, non-food and services (e.g. travel and mobile phones). As an example of its non-food business, Tchibo is the biggest jewellery retailer in Germany at Christmas time. This success is founded on the use of exclusive products and the application of comprehensive quality controls.

Elements of the business model

Tchibo is a powerful brand in Germany because it enjoys both high brand recognition and high brand value. This brand strength can be broken down into a sales formula, whereby the group's various products, outlets and countries multiply to produce total turnover that reached €3.7 billion last year. In terms of organisation, it is about managing complexity in a way that other companies have not been able to copy. Summing up, Dieter Ammer argued that this success story doesn't fit any standard business model; it is a unique combination of: non-food for inspiration, change and value for money; the store that creates an experience and relaxation; and food to provide pleasure, indulgence and passion.

Combining the strengths of store and product in one fashion brand

Christian Pimont, CEO, Celio



Like all retailers, Celio faces challenges such as growing consumer expectations and the rising share of spending devoted to leisure and electronics. Prices in textiles have been falling for the past 10 years under the impact of cheap sourcing, the value of the dollar, and lower price tolerance following the introduction of the euro. So how does a specialist grow when many hypermarkets are seeing their own textile share decline? To move from being a chain to a brand,

Christian Pimont argued, a retailer has to be irresistible for the customer and outstanding operationally. He explained these two keys to success as follows:

Operational performance: the successful concepts are well-known (overseas sourcing, short/long cycles, IT etc.) but you can't work on all of them at the same time, so it's a case of choosing a clear positioning; Celio focuses on sportswear for men. In terms of operational management, control and reactivity are vital. Celio changes its collection four times a year and has to respond to weather trends, for example by rotating long-sleeve and short-sleeve shirts.

Irresistible for the customer: a fashion brand is one that customers are proud to wear and which provides them with a guarantee of quality. Organisationally, it implies the capacity to develop internationally, supported by strong management systems. The brand must be coherent in terms of product, image and merchandising; there is always the temptation to seek growth in new markets, but you have to maintain your clear positioning, Christian Pimont stressed. Ultimately, a fashion brand comes down to positioning, desire and coherence, he concluded.

What is food retailing today?

Alan McClay, CEO, CIES - The Food Business Forum



CIES provides a comprehensive reflection of what food retailing is today, Alan McClay explained. It is not just The Summit, nor a series of activities in other areas of the business: it is all the potential relationships created by companies and individuals participating for their own specific reasons and goals. The CIES Annual Report gives an overview of the past 12 months in the various CIES programmes. These correspond to the past year's developments in food retail; the IT, Food Safety and Supply Chain programmes, for example, got together last year to discuss traceability and data synchronisation – flagging for the first time the real issue about data synchronisation: the quality of the data. Upcoming events will uncover more issues facing food retailing and also increasingly non-food retailing, as at The Summit. All of these activities demonstrate the fundamental CIES mission of knowledge and networking, at the core of which is the dialogue and interaction between retailers and manufacturers.

Marketing insights - the contribution of the CIES Marketing Forum

André Tordjman, Chairman, CIES Marketing Committee & Marketing Director, Auchan



Marketing is important today because consumers have lost their traditional price and brand reference points; they now move quickly between different products and channels. In this competitive environment, the CIES Marketing Forum positions itself as “*the event for marketing executives seeking retail insights, innovation and inspiration from around the world*”. The Forum is developed by the CIES Marketing Committee, whose 15 members represent a variety of CIES member companies – retailers and suppliers – from Europe and North America. Put simply, if you are a marketing executive, you shouldn’t miss the CIES Marketing Forum. Why? The event has top speakers, provides a global forum for marketing, and offers real-life examples that focus on marketing issues. André Tordjman urged CIES members to participate in the Forum this year on November 15-16 in Paris.

Full details on the CIES Marketing Forum 2005 are available at www.ciesmarketingforum.com

Business session 5: Does leadership still count?

What legacy are we leaving for the food business?

Jeff Noddle, Chairman to FMI & Chairman, President & CEO, SUPERVALU INC.



Retailer and wholesaler SuperValu has over 135 years of history and is today the seventh-largest grocery company in the US. When he became chief operating officer in 2000, Jeff Noddle spearheaded a strategic review of SuperValu’s operations. Dramatic changes were taking place across the grocery industry, such as channel blurring and rising healthcare and pension costs. SuperValu’s review produced a ‘vision’ that led to the following changes:

Improve the retail store fleet: in other words, exit markets where it could not win, invest in those where it was strong. As a result, 85% of SuperValu’s stores are newly built or have been remodelled within the past seven years.

Identify next-generation growth concepts for retail: the diversity of SuperValu’s portfolio is the lynchpin of its differentiation in the industry. Its flagship format, “price-impact retail”, meets the needs of budget-conscious shoppers and is tailored to local demographics; the “extreme-value” format, the equivalent of hard discount in Europe, serves families on annual incomes of US\$35,000 or less; the “traditional grocery” format, finally, integrates lessons from price-impact retail in a full-service supermarket.

Create a more fluid supply chain: SuperValu works with independent retailers to provide more than product – for example know-how in merchandising and real estate. The company also aims to address a broad array of needs at other retail organisations, such as Kroger and SuperTarget.

Leverage supply chain expertise with a new business model: SuperValu identified third-party logistics as a tremendous opportunity, with an estimated 80% of Fortune 500 companies outsourcing the management of their supply chain. The group recently found a partner, Total Logistics Control, that offers an integrated suite of supply chain services.

Accelerate the application of technology: initiatives include SVHarbor, a B2B supply-chain portal for Supervalu's partners, and a system for automated storage and retrieval at one of its largest distribution centres; the latter will help Supervalu remain competitive with supercentres and other low-cost providers.

So what is Supervalu's legacy? Firstly, innovation, which is creating a more efficient supply chain and building retail operations that meet and predict the needs of consumers. At a higher level, Supervalu emphasises leadership, particularly honesty. A watershed example was the company's decision in 2001 to give up a supply contract with Kmart – which represented 10% of Supervalu's revenue – because it did not fit its long-term vision. The move brought criticism from Wall Street but was soon vindicated as Kmart and new supplier Fleming each filed for bankruptcy protection. The lesson, Alan Noddle argued, is to listen to your intuition and your sense of integrity, and look beyond immediate gains to the long-term impact of any decision.

Compassionate Capitalism

Mel Young, Social Entrepreneur; Director, Homeless World Cup; Editor-in-chief, New Consumer; President, International Network of Street Papers



Everyone agrees that poverty is bad, but the difficult thing is how to change it, Mel Young argued. He described “practical solutions” at both a micro and macro level.

Micro

The term “social entrepreneur” is increasingly used to refer to people in the social sector who are running a business. They are very similar to traditional entrepreneurs but have different measures of success: instead of profit, they are concerned with social outcomes. There are 40 social entrepreneurs recognised by the Schwab Foundation and they carry out many grass-roots-level interventions. Mel Young's own initiatives include:

- “*New Consumer*”: this magazine gives information and ideas about fair trade products. It reflects consumer demand: fair trade sales are doubling year on year in the UK.
- “*The Big Issue*”: this weekly magazine sold by homeless people aims to be a “hand-up, not a hand-out”. 60% of the cover price goes to the sellers, who can now also use a savings bank for the homeless. *The Big Issue* has become a very successful mainstream publication in Scotland, with a circulation of 40-50,000.
- *The Homeless World Cup*: the idea came out of discussions within the International Network of Street Papers, which links over 60 publications. Football was chosen as a common language that could bring together homeless people from around the world. A first tournament featuring 18 countries was held in Gratz, Austria, in 2003. It proved a phenomenal success, changing the behaviour of both players – who found themselves applauded for the first time – and spectators – who could not believe the players were homeless. After the event, 90% of the players moved on, whether into a job, a home or even professional football. The tournament was repeated in 2004 and this year will be held in Edinburgh, Scotland, on July 20, with 32 countries represented.

Macro

These grass-roots interventions have been successful but remain tiny. On a macro level, business can make things happen. But we have got to stop pretending about CSR [Corporate Social

Responsibility] and start doing practical things, Mel Young insisted. He gave the example of Nike, which is one of the partners of the Homeless World Cup. However, we have to be careful when rolling out projects on a macro level. The World Bank paid US\$20 billion to consultants last year: imagine what business could do with US\$20 billion in Africa!, he argued. There is no reason for poverty to exist: if we are capable of developing the internet, he concluded, we can eliminate poverty.

Keynote closing address: Leading with courage

Porntip Rojanasunan, Forensic Pathologist & Deputy Director, The Central Institute for Forensic Science at the Justice Ministry of Thailand



Background

Porntip Rojanasunan's parents, both food scientists in the dairy industry, had a major influence on her character. In particular, they taught her to do good and to develop analytical thinking. She soon became interested in both science and the arts, subscribing to *National Geographic* and fashion magazine *Couture* from the age of 10. She has maintained this dual interest ever since; one of the reasons why she chose to become a forensic doctor was that she could continue to wear her own distinctive clothes and hairstyles, unlike if she had been a normal doctor.

Each episode in her life has given her more courage to follow her chosen path. She started her work as a pathologist in a small hospital in northern Thailand with almost no resources. By tackling each problem one by one, she gradually became stronger at execution. She also came to learn more about social and judicial problems. The death of one of her students marked the beginning of a battle against police corruption. The student had been killed by her boyfriend but the police took no action. Porntip Rojanasunan carried out tests on the blood stains that led to the case being reopened.

Tsunami

The disaster took many lives and left very deep scars. In Thailand, it required the biggest-ever forensic operation, with the identification of over 5,000 bodies. Porntip Rojanasunan immediately flew down to the affected area, where she stayed for more than a month. As before, she tried to go through each problem one by one. This was crucial because the government did not know how to react and no one knew who was in charge. Organising human resources was the key: Porntip Rojanasunan oversaw 10,000 volunteers using her chosen "trust model": trust everyone all of the time. Without technical support from the government, the team improvised, for example by using a temple to lay out bodies and a coffin to serve as a desk.

Leadership

Porntip Rojanasunan's work is based on systematic, analytical thinking allied to a principle of righteousness. It is easy to drift along, she stressed, but you must stop and think about what you are doing and why. She is often seen as a leader because of her artistic image, whereas in fact she uses the public attention she gets because of her image to convey a message. Ultimately, righteousness derived from Buddhism remains her ground rule: only this will bring long-term happiness, she argued. She sees herself as neither a follower nor a leader: her strong mind means that she does not follow others blindly, but Buddhist teaching does not allow her to see herself as better than others – she is simply following her destiny.

CIES Chairman closes the 2005 World Food Business Summit

Claude Hauser, Chairman of CIES - The Food Business Forum & Chairman of the Board of Directors, Federation of Migros Cooperatives

Summing up the ideas and debate at The Summit, Claude Hauser argued that there are clear opportunities in the ‘shifts’ we are experiencing. The Summit showed that various types of retailers are successfully adapting to change: groups linked to independents, like Leclerc and Spar, food-focused chains like Delhaize and 7-Eleven, and national operators like FairPrice and Tansas. In other words, discount is not the only solution to discount, he insisted. We also need to look beyond discount to other businesses: PriceMinister described how consumers are moving beyond traditional buyer-seller relationships with e-commerce, while IKEA and Tchibo are gaining a bigger share of wallet by extending their value proposition to different categories. More widely, the Summit showed that shifts are not for the faint-hearted: courage is needed, whether to pursue technological transformations like RFID or to revive a former Communist country like Hungary. More dramatically, courage is needed to face humanitarian crises like the famine in Niger or the tsunami disaster in Asia.

Turning to developments at CIES, Claude Hauser underlined that since last year’s Summit a new CEO, Alan McClay, had been appointed. He has now formed a Management Committee that also includes Jonathan Berger, Werner Dähne, Sharon Jeske, Rhoda Lane O’Kelly and Marc van der Liet. Externally, CIES is continuing to strengthen its roots all over the world, in particular in China. Its ambition is to bring Chinese participation in The Summit to match the country’s economic weight.

Networking moments facilitated by the Official Sponsors at CIES World Food Business Summit



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