The changing face of the global food industry

Presentation OECD Conference The Hague 6 February 2003

Jan-Willem Grievink

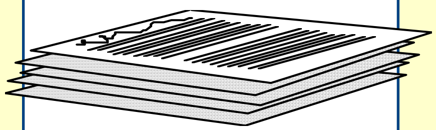
Jan-Willem Grievink

- **Jan-Willem Grievink is research & strategy-director within CGE&Y**
- **Working for several major players in the food industry as a strategic consultant at boardroom-level**
- **Previous functions included:**
  - Executive Officer in food retail
  - Marketing director in the food industry
  - Editorial CEO in the media industry
- **Expert counselling in food retailing and supply chain issues and observer of current and future trends in these areas.**

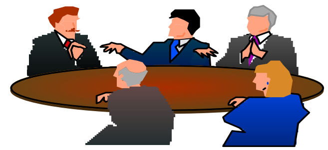
Research method: Delphi-based

I.Hyphenate in-depth interviews with top managers from the food sector

II. Send out questionnaire to European, American and Asia Pacific respondents



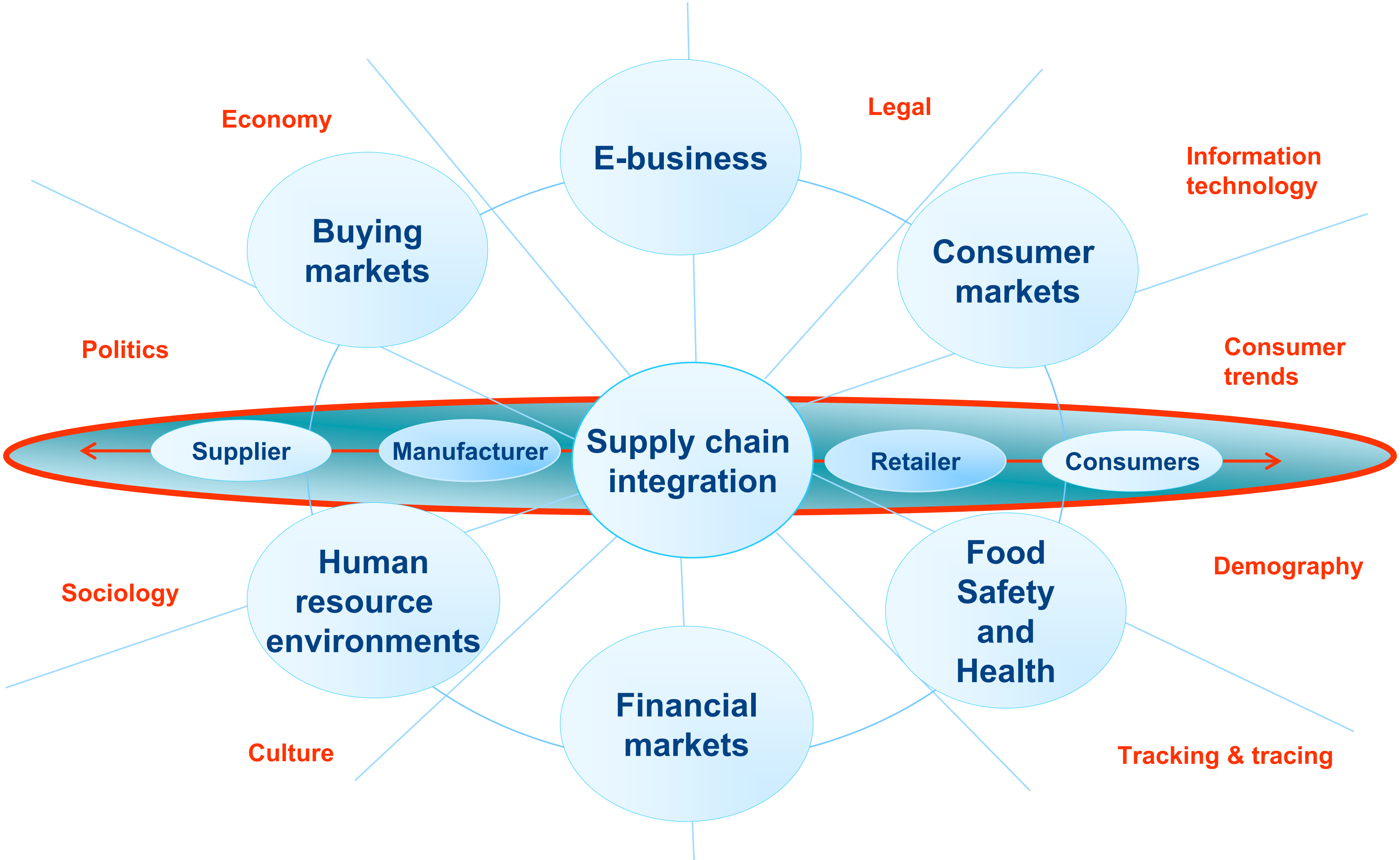
III. Analysis & conclusions



IV. Report

- **Desk research with CGE&Y consultants and university specialist building the State of the Art in Food model and core questions.**
- **Selecting companies and persons to interview and to send the questionnaire to.**
- **In depth interviews with 65 top managers from the retail and manufacturers side as well as other influentials in the food branch.**
- **Sending questionnaires with statements to over 225 policy makers.**
- **Analysing and drawing conclusions from the questionnaires, the interviews and market facts and figures. This has been done by a team of sector specialists of CGE&Y and Reed Elsevier together with research organizations and three university professors.**

Model State of the Art in Food



The 8 big battles to face for the next 7 years….

1. The battle for the consumer mindset…

Some retailers will become strong brands and dictate the supply-chain

2. The battle between out of home consumption and eating at home

- The food-service market will adapt retail policy

3. The battle of the global brands…

- More differentiation and less regimentation!

4. The battle around the optimal supermarket format

- Fair prices and more transparency in segmentation in mature markets

The 8 big battles continued

5. The battle around the power in the supply chain

- Co-operation and setting standards for safety and efficiency

6. The battle between demand driven and production driven agriculture

- Global sourcing increasing, subsidising policy decreasing

7. The battle on the stock market

Less power for shareholders and financial analysts
and more long-term commitments for investors as stakeholders

8. The battle of leadership-styles and culture borders

- Coaching Style or Democratic dictator-ship

Some retailers will change the food supply chain …

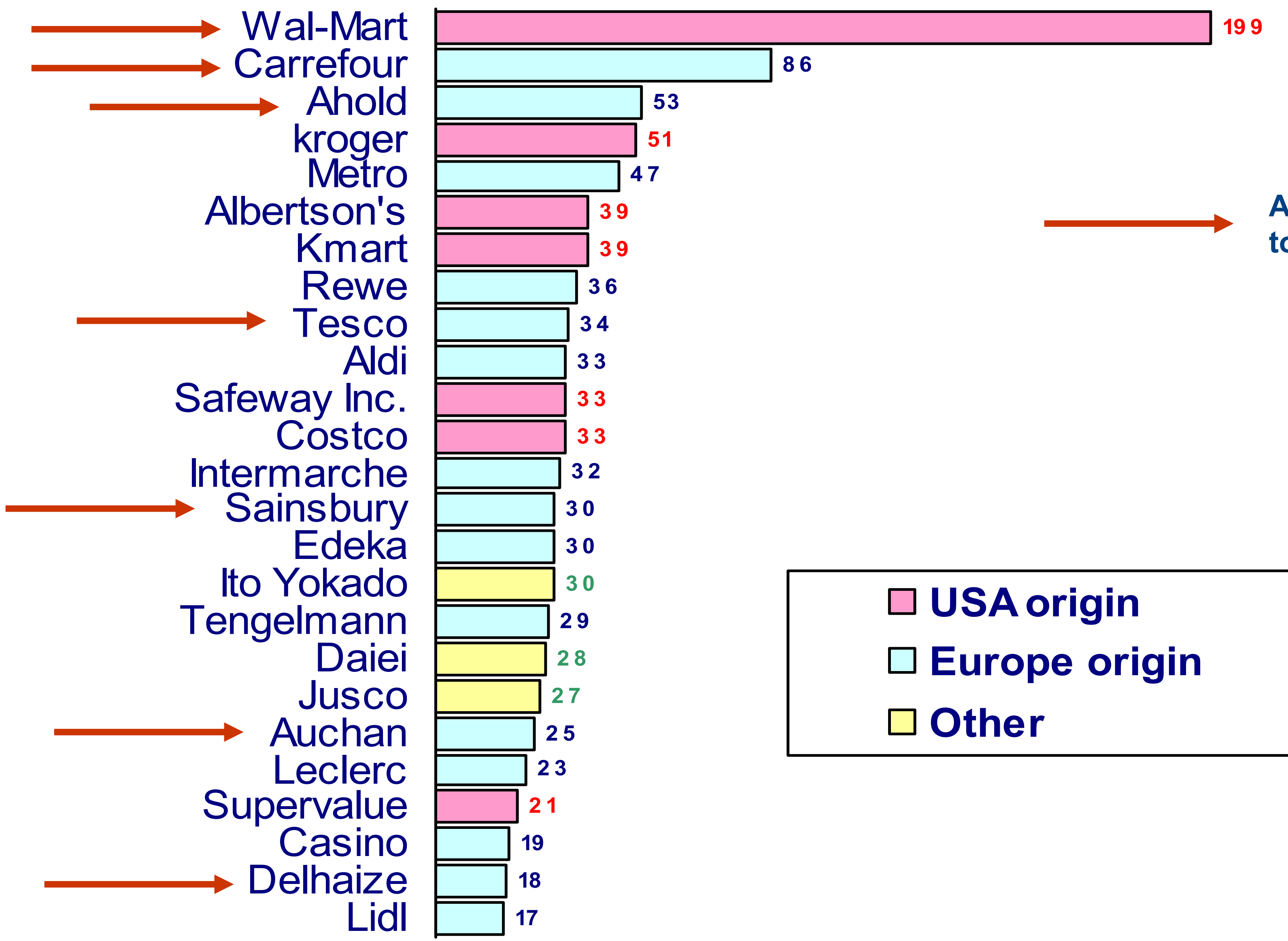
The 21ste century vision

- **Ahold**: "Ahold's mission is to become the best and most succesful food provider in the world."
- **Carrefour**: "The worlds most global retailer, with a complete line of formats and te best-adapted to the various forms of local consumption."
- **Tesco**: "We are developing our UK business, in food, non-food and financial services. Our international growth strategy is to develop large stores in big markets where we can establish a leading position."
- **Wal*Mart**: "We want to lower the costs of living around the world."
- "**Auchan** bases its growth strategy on being the brand of choice for customers …adopting a 'people-to-people' approach"

REED ELSEVIER

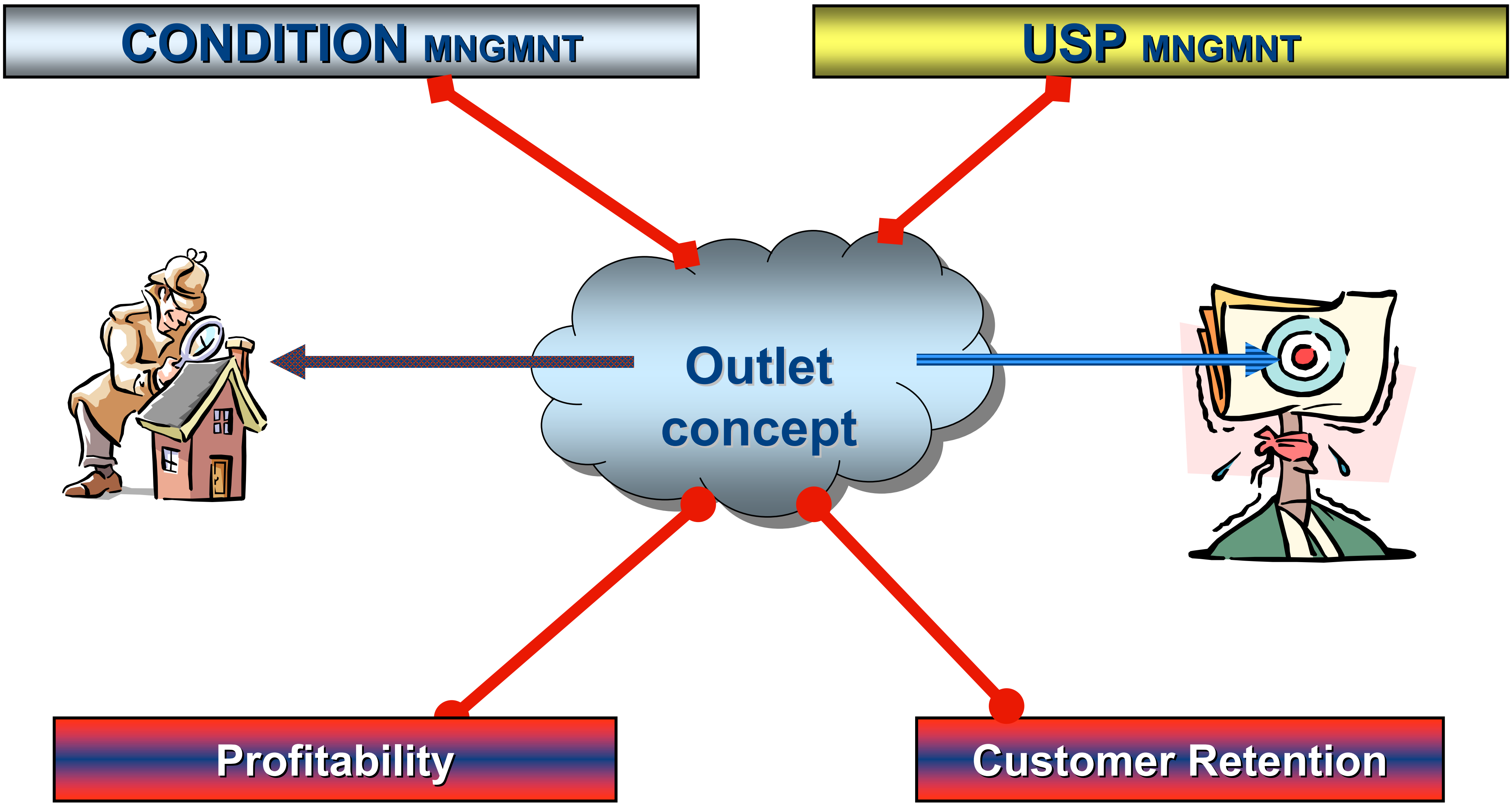
CAP GEMINI ERNST & YOUNG

The world’s largest food retailers (top-25 in global sales in billion of euro)

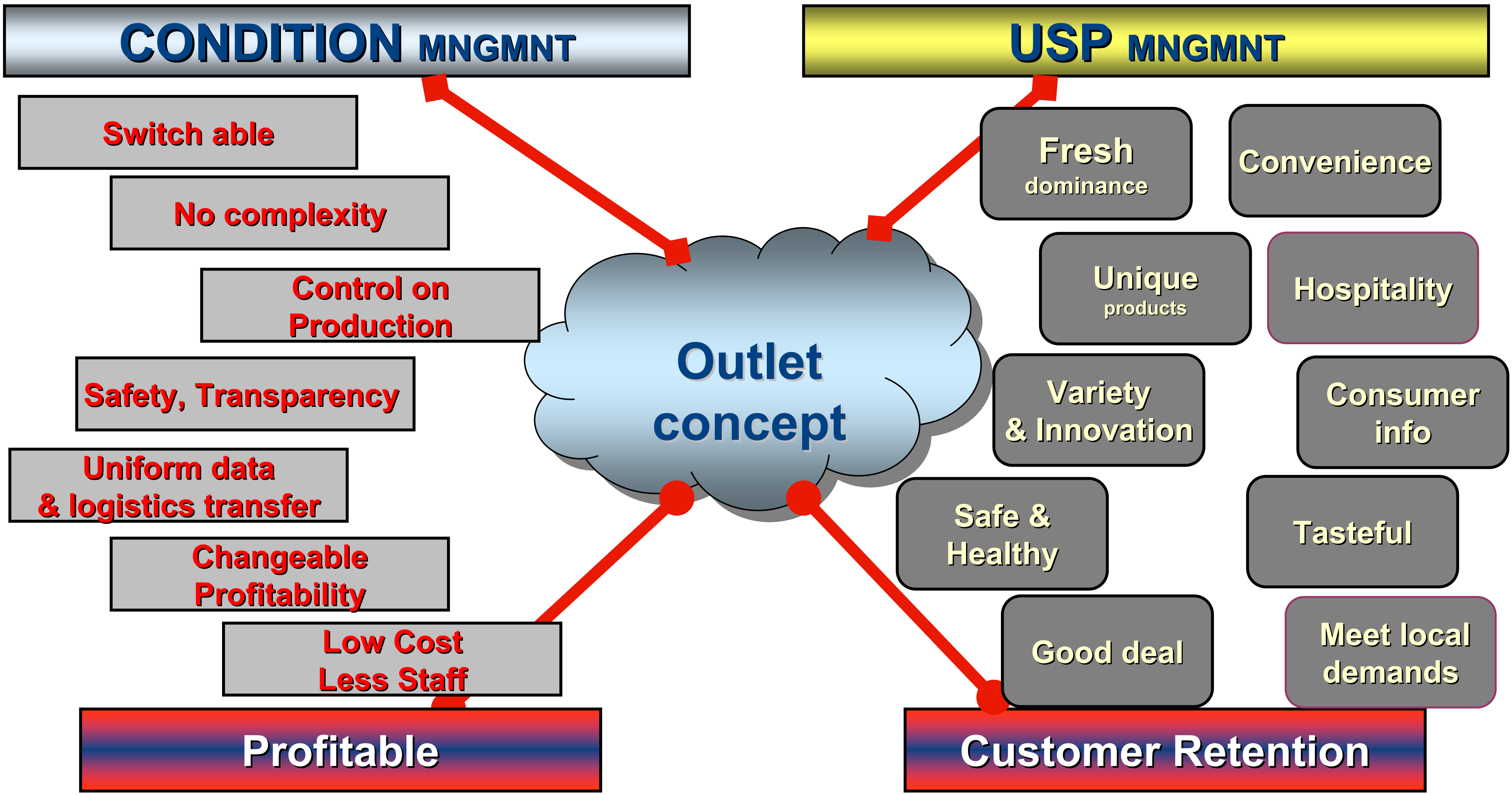


Announced a strategy to become a Brand

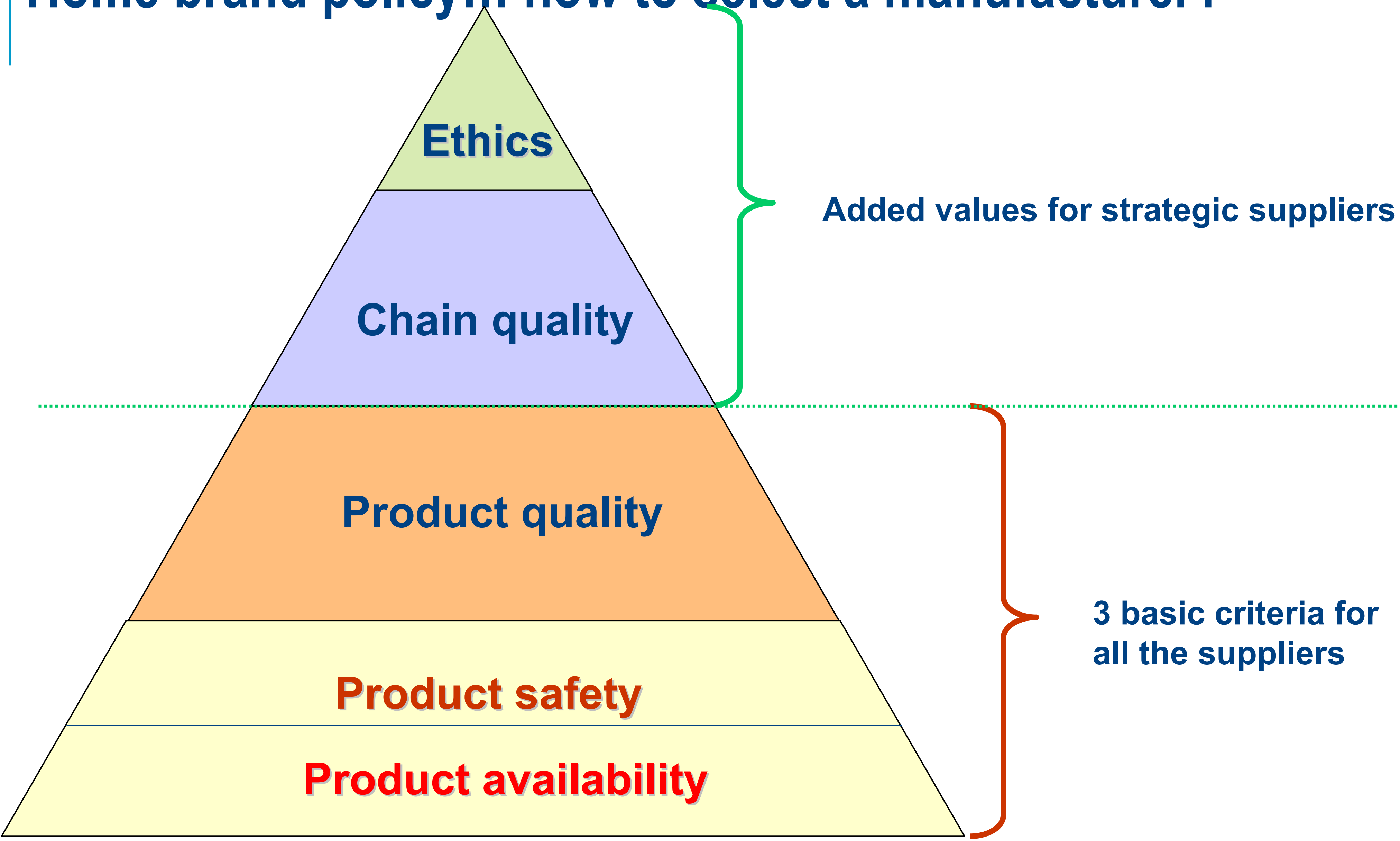
Food concepts in the context of positioning strategies



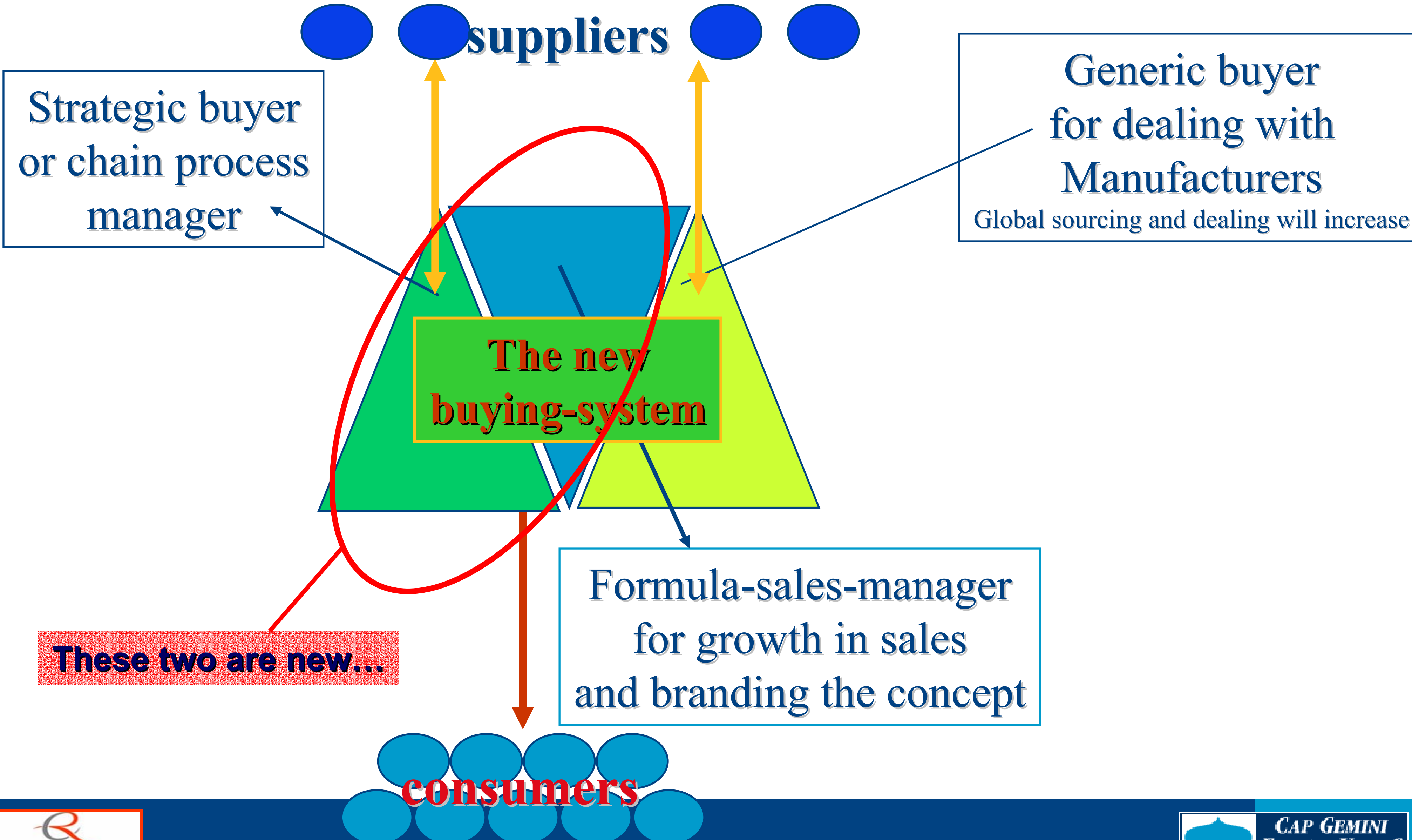
10 main USP's and condition management for the big concepts…



Home brand policy… how to select a manufacturer?



New Buying Systems within Brand Supermarket Chains



Store format brand

Building the concept means that you want something unique in..

Brand-value
Unique product and Recipe
Packaging
Price
Quality innovation
Shelf life/ambience
Promotion
Consumer information
HACCP

TRANSFORM STORES INTO BRANDS

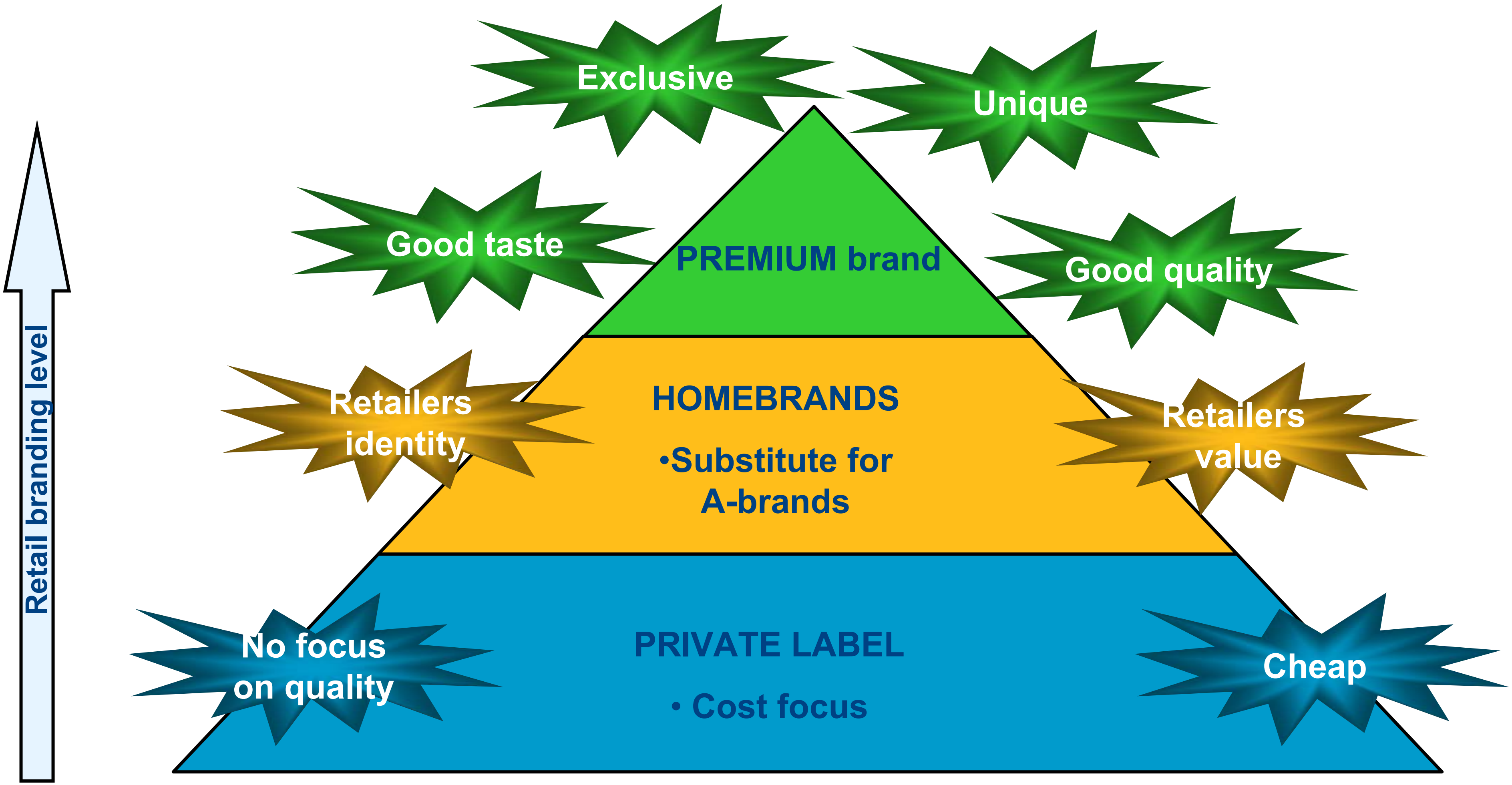
CONTROL THE CHAIN IN ORDER TO SELECT USP'S

Chain-management means that you want to control…

Delivery quantity
Delivery moment
Frequency
Packaging
data-info & auditing
Ingredients
production-methods
Benchmarking efficiency
ISO

Manufacturer

Private labels in a new segmentation



Facts about articles in main supermarkets

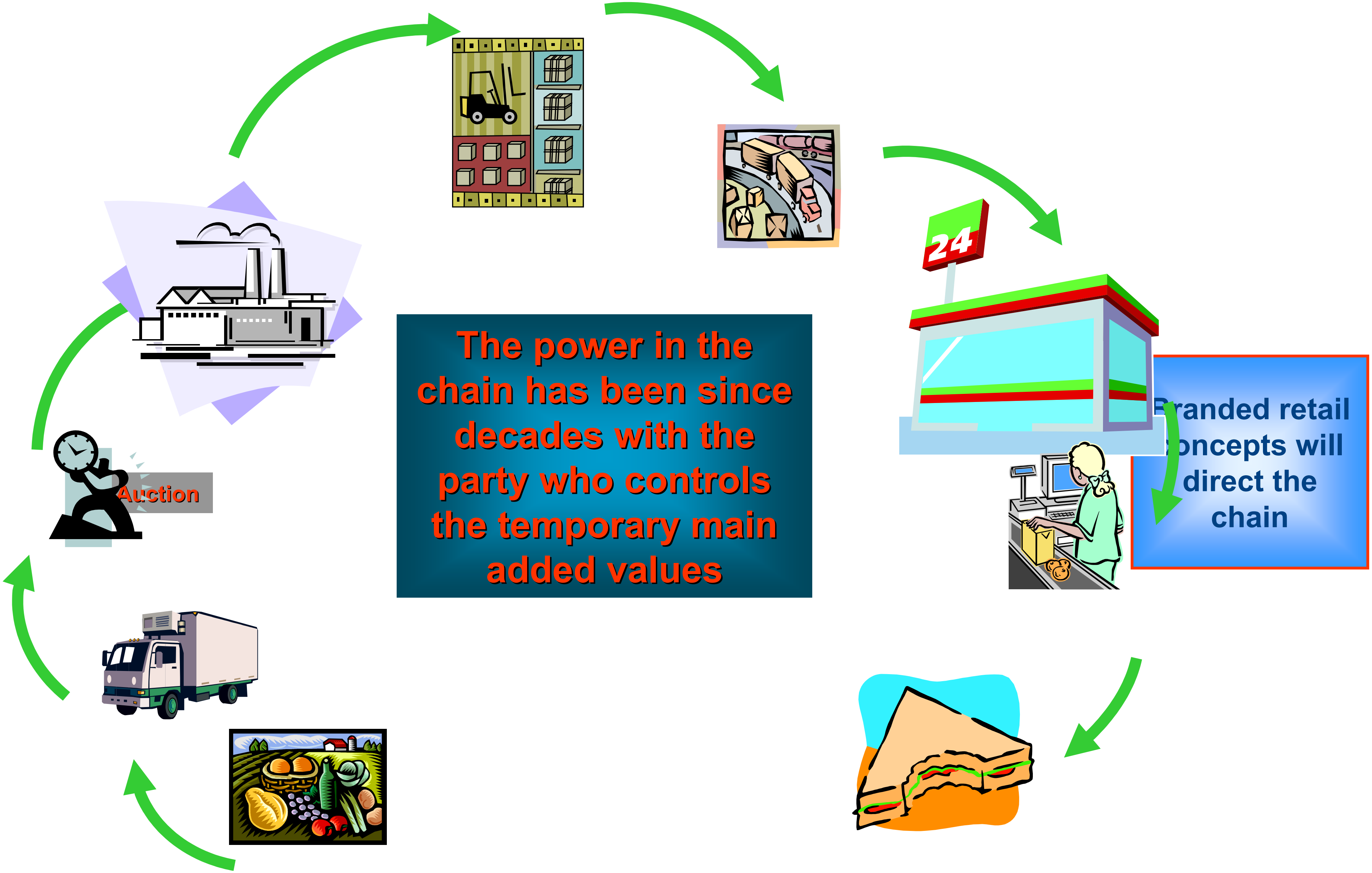
Country	Average no SKU's in main supermarkets	Fresh related SKU's in main supermarket	Mix Margin for the total supermarket
Netherlands	9.500	3.450	20,5%
France	29.000	16.000	23,5%
USA	41.000	21.000	24,5%
UK	26.000	13.500	26%

REED ELSEVIER

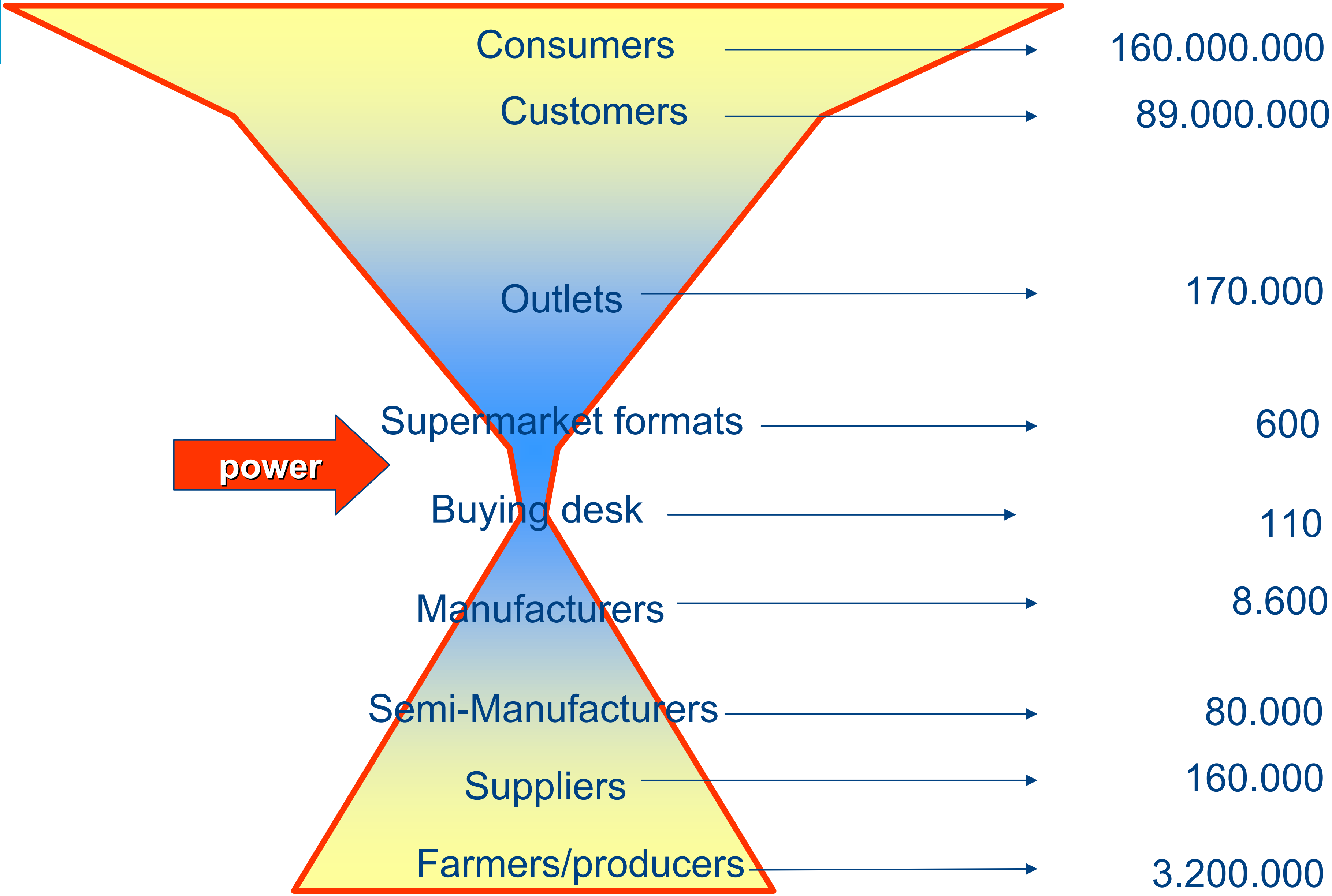
CAP GEMINI ERNST & YOUNG

The balance of power

The Supply chain under control of branded supermarket chains


The power in the chain has been since decades with the party who controls the temporary main added values
Auction
Branded retail concepts will direct the chain
24

The Supply Chain Funnel in Europe



Retail Top-3 position in different countries

	1	2	3	Combined share
Sweden	ICA	OF	AXFOOD	95%
Norway	NORGESGRUPPEN	HAKON	COOP	86%
Netherlands	AHOLD	LAURUS	SU	83%
Finland	KESKO	SOK	SUOMEN SPAR	80%
Denmark	FDB	DANSK SUPERMARKT	SUPERGROS	78%
Austria	BML-REWE	SPAR	ADEG	78%
Switserland	MIGROS	COOP	PRIMO VISAVIS	76%
France	CARREFOUR	LECLERC/SYS U	INTERMARCHE	64%
Belgium	CARREFOUR	DELHAIZE	COLRUYT	60%
UK	TESCO	SAINSBURY	ASDA	58%
Germany	EDEKA	REWE	ALDI	57%
Ireland	TESCO	DUNNES	SUPERVALUE	54%
Portugal	SONAE	JMR	INTERMARCHE	52%
Spain	CARREFOUR	EROSKI GROUP	AUCHAN	44%
Italy	COOP	CONAD	CARREFOUR	32%
Greece	CARREFOUR	ALFA BETA	VEROPOULOS	32%

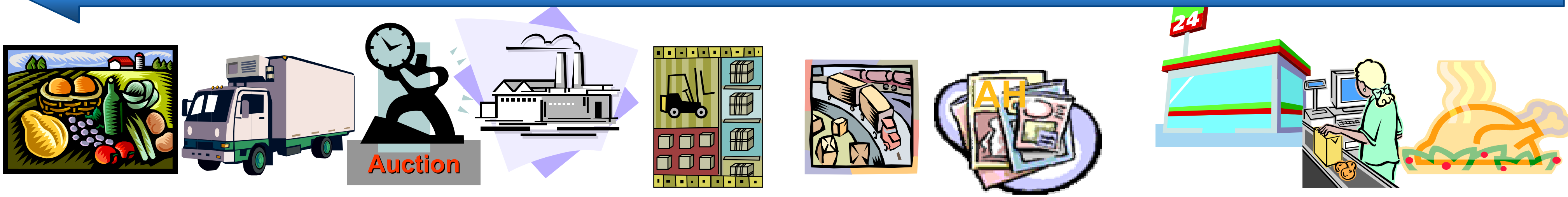
The functions of the links in the food-chain are changing!

image

Mindsetting added value

farmer | supplier | manufacturer | Warehouse& distribution | Buying desk | Store-format | client | consumer

Demands



Goods

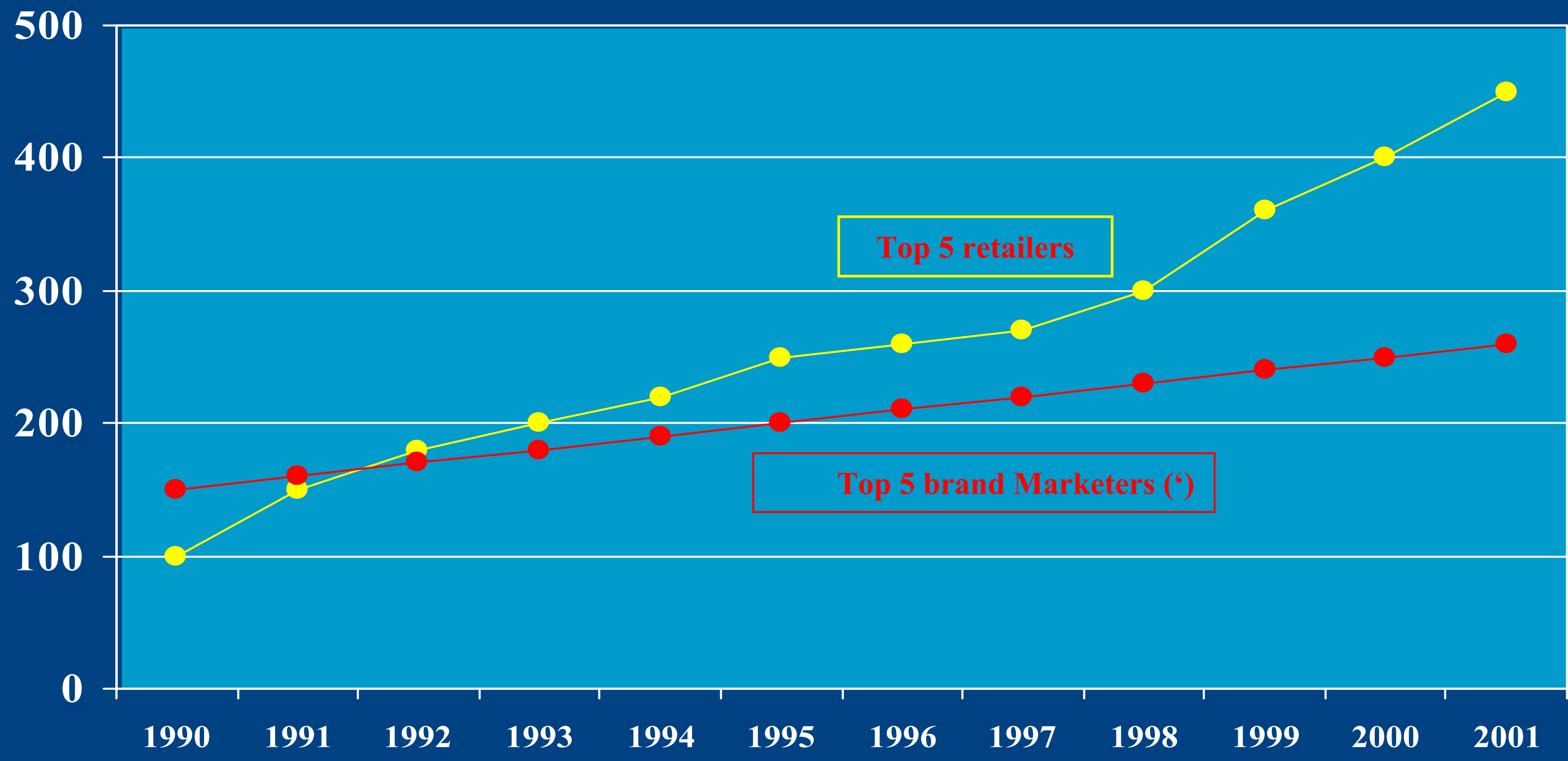
farmer | supplier | manufacturer | Warehouse& distribution | Buying desk | Store-format | client | consumer

Physically build up

Quality added value

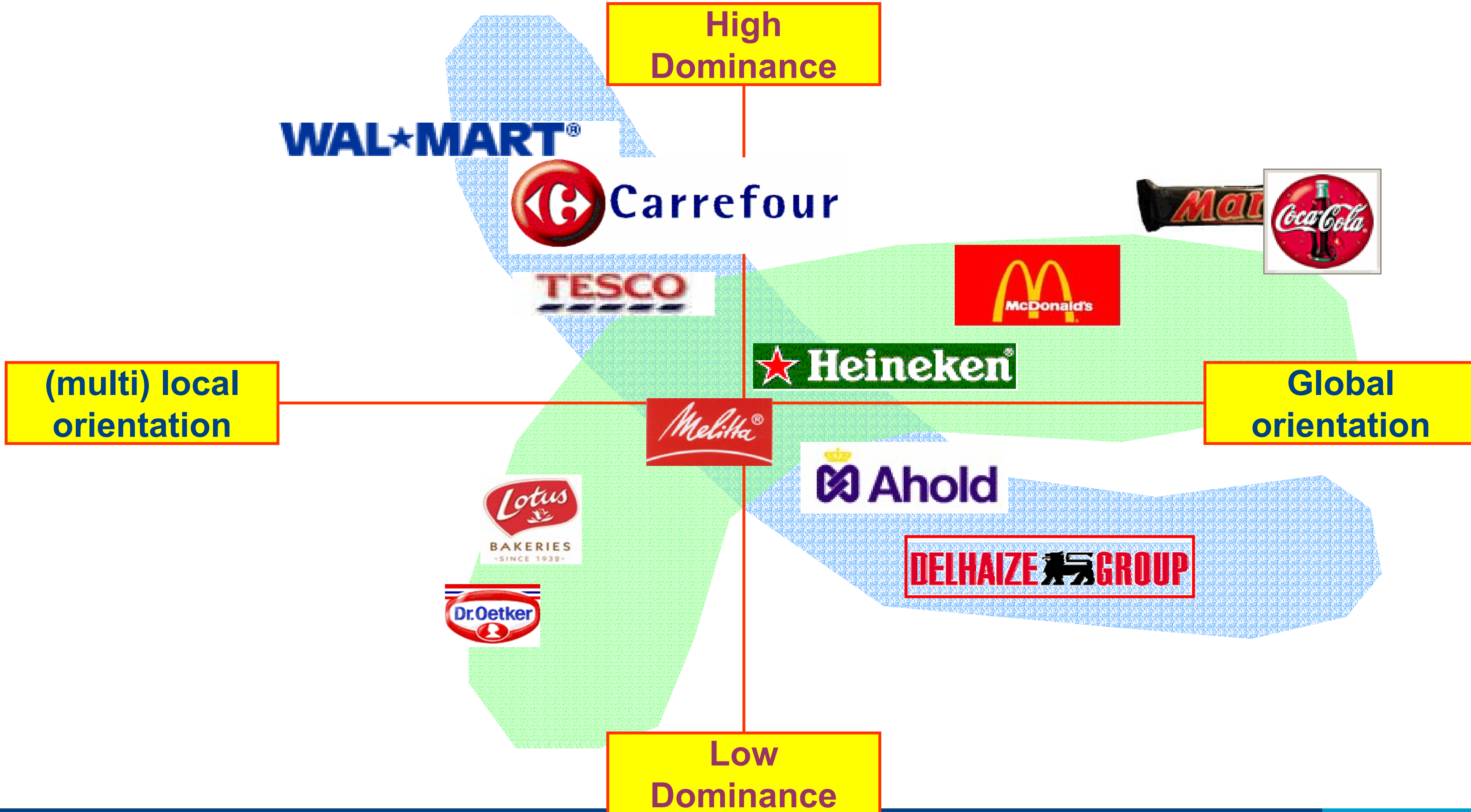
Balance of Power Has Shifted

Retailers are increasing their relative strength vs. Brand marketers

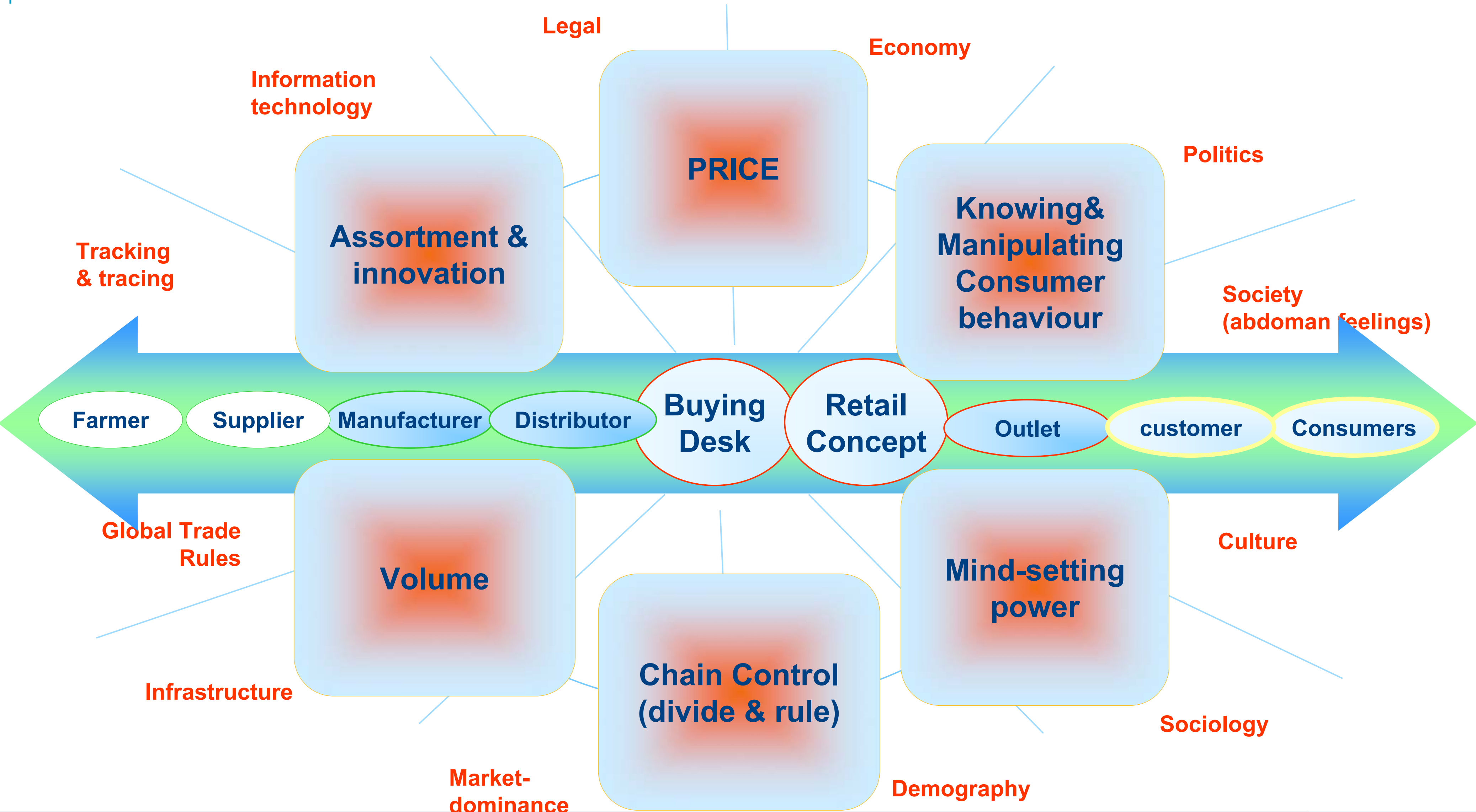


(*) PH, Morris, Nestle, Unilever, P&G, BAT

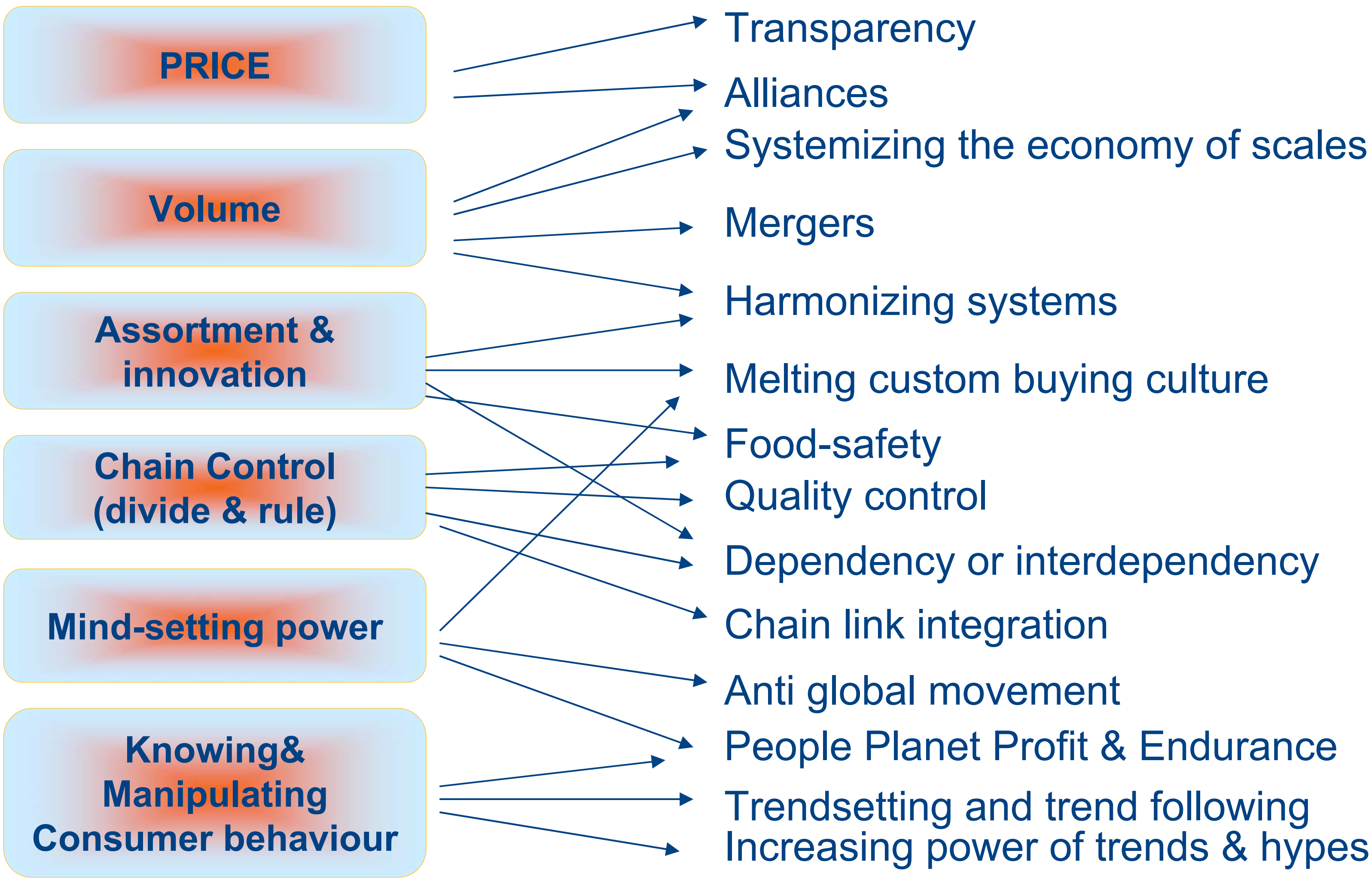
The difference in power between Manufacturers and Retailers



Food Supply Chain Power Balance Indicators



The effect of the retail power indicators



The sales trends for the future

- **In mature markets**
  - Concepts with more than Products & Price
  - Mass customisation and re-differentiation
- **In emerging markets**
  - Formula's en uniformization
  - Discipline and harmonization

REED ELSEVIER

CAP GEMINI ERNST & YOUNG

Mature market segmentation

High Price

Brand selling Stores
35% of the market

Branded Stores
30% of the market

Chain Control orientation’

No value add
Only selling

Added Value
Concept oriented

Discount
25% of the market

Quality Discount
10% of the market

Low Price

2. The battle between out of home consumption and eating at home

- **Convenience meal-shops and Out of Home are increasing >7%**
- **In Europe within 15 years sales OoH & Retail equal**

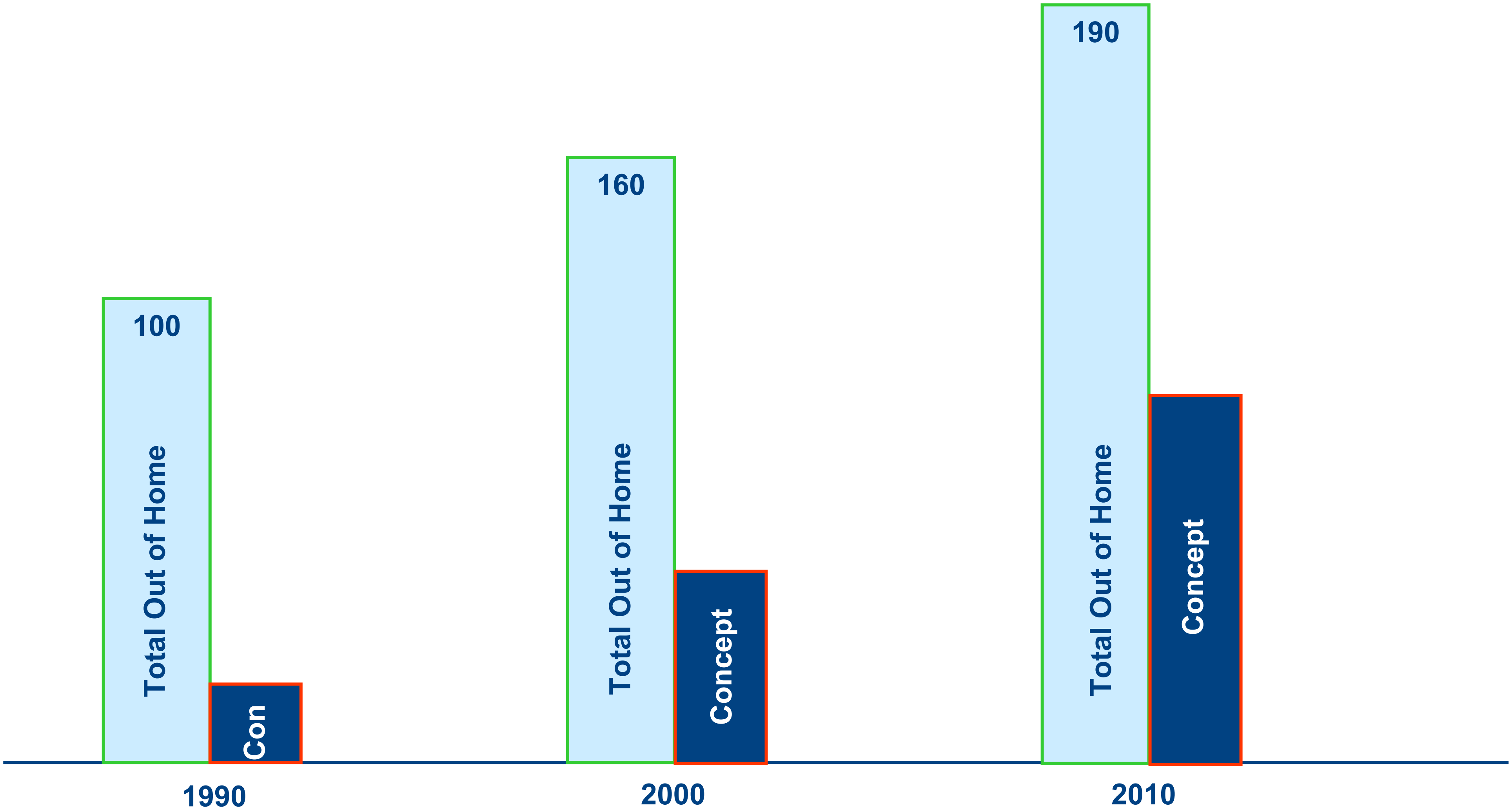
<u>Who will benefit most of the increasing market</u>

A combination of:

- **Retailers → strong in cost-efficiency**
- **Catering companies → strong in service delivery**
- **Restaurants → strong in hospitality**
- **Specialty shops → strong in products**

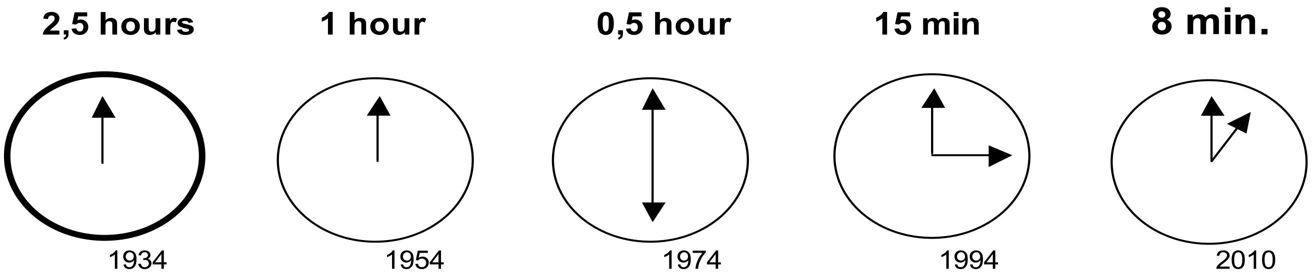
WHO WILL WIN THIS GAME?

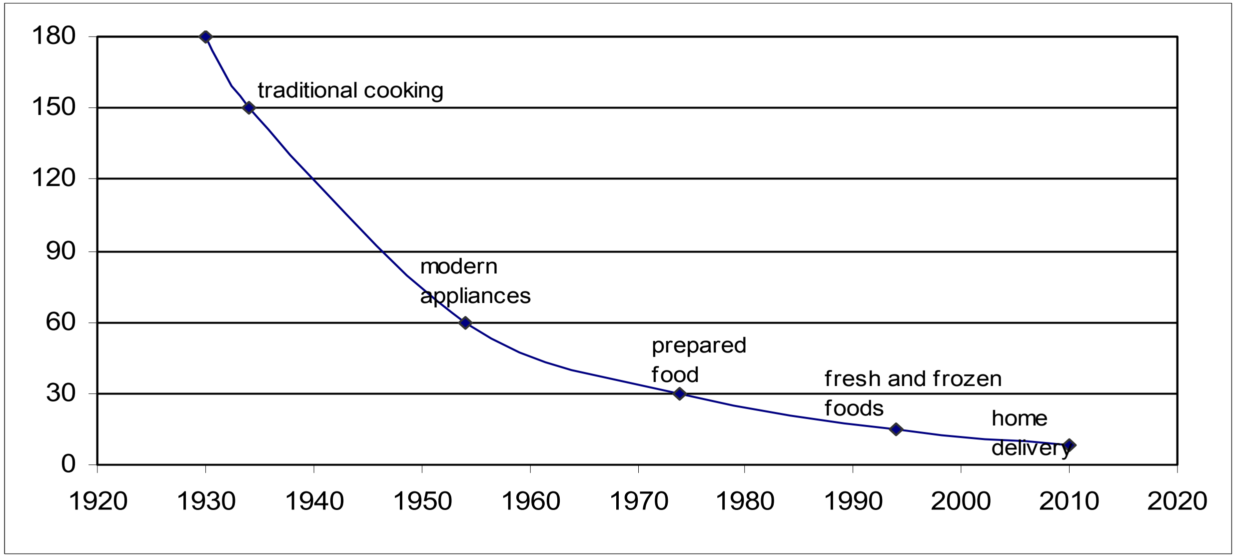
Out of Home branded store concepts Western Europe
Percentage of total sales through branded concept outlets



The length of time for food preparation “at Home” has reduced significantly in the past century

Home cooking time UK





* Source: Imperial college, Prof. D. Hughes

REED ELSEVIER

CAP GEMINI ERNST & YOUNG

3. The battle of the global brands…

- **How to avoid a mentality of 'trying to be everybody's darling'**
- **Is there an end of everlasting global stretching the A-brands ???**

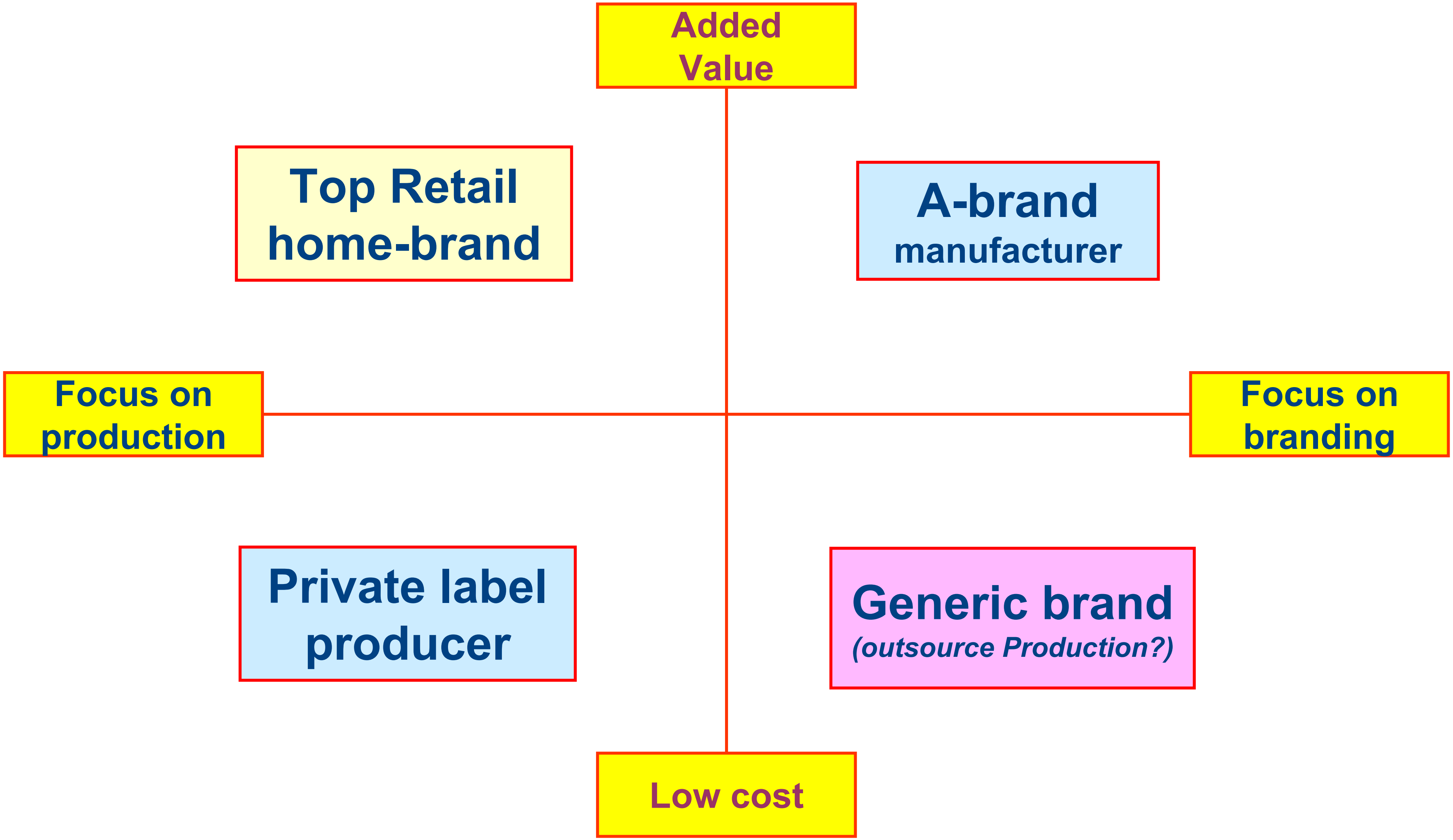
- **Three main developments behind the jam**
  - Local relevancy coming up
  - Anti-global movement
  - Retailers do not want to differentiate themselves with Dry Groceries and obvious brands

REED ELSEVIER
CAP GEMINI ERNST & YOUNG

The big dilemma's for the supply chain players

- Anticipating the demand driven chain or refocus on supply power & innovation
- Global sourcing or controlled local sourcing
- Independency, interdependency or co-operation?
- Anticipating the retail-power or avoiding the dictates
- Branding yes or no?
- Have a relation with the consumer yes or no?

How can a manufacturer face retail power?



Brands in the Future…

- **Six scenario's to get out of a tight corner…**
  1. Global A-brands as cornerstones of the portfolio of a assortment portfolio but with a lot of local jewel brands around it
  2. The local relevant face in front of the strategy
  3. Get in direct touch with the consumers (avoid the dictates of the supermarket)
  4. Brand stretching to fresh assortments
  5. New distinguishing brand-characteristics & premium innovation
  6. Creating selective portfolio parts for main retailers

REED ELSEVIER

CAP GEMINI ERNST & YOUNG

Winning shop formulas

- Hypermarkets → Focus on leisure (less non-food)
- Full-service supermarkets → Super-store with service assortments
- Hard discounters → Assortment Discount & quality discount
- Convenience stores → Fresh and mealshops

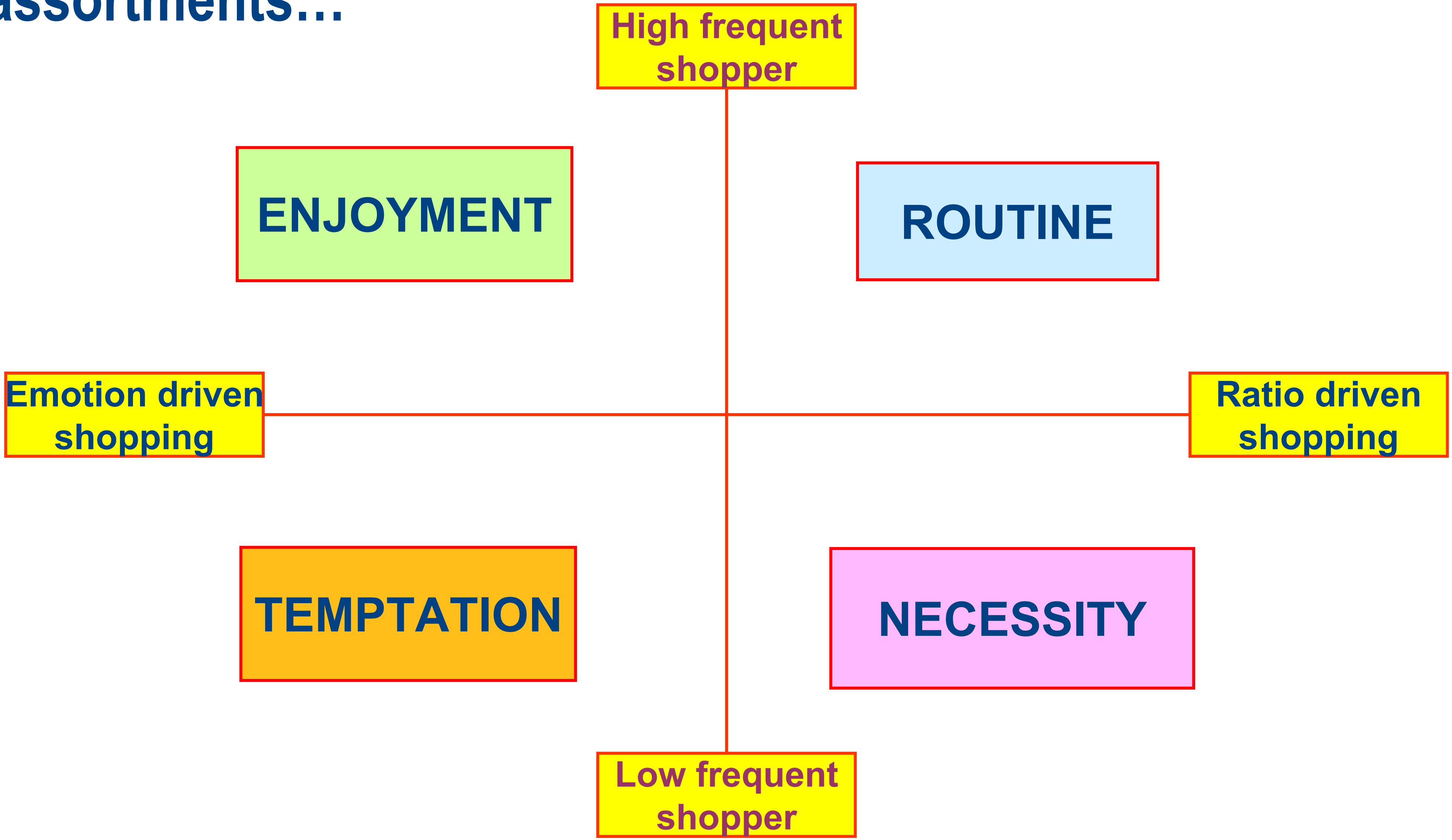
Trends:

- Fast changing environment
- Increasing demands concerning opening hours, assortment, quality
- Focus on shopping behaviour as well as on consumers

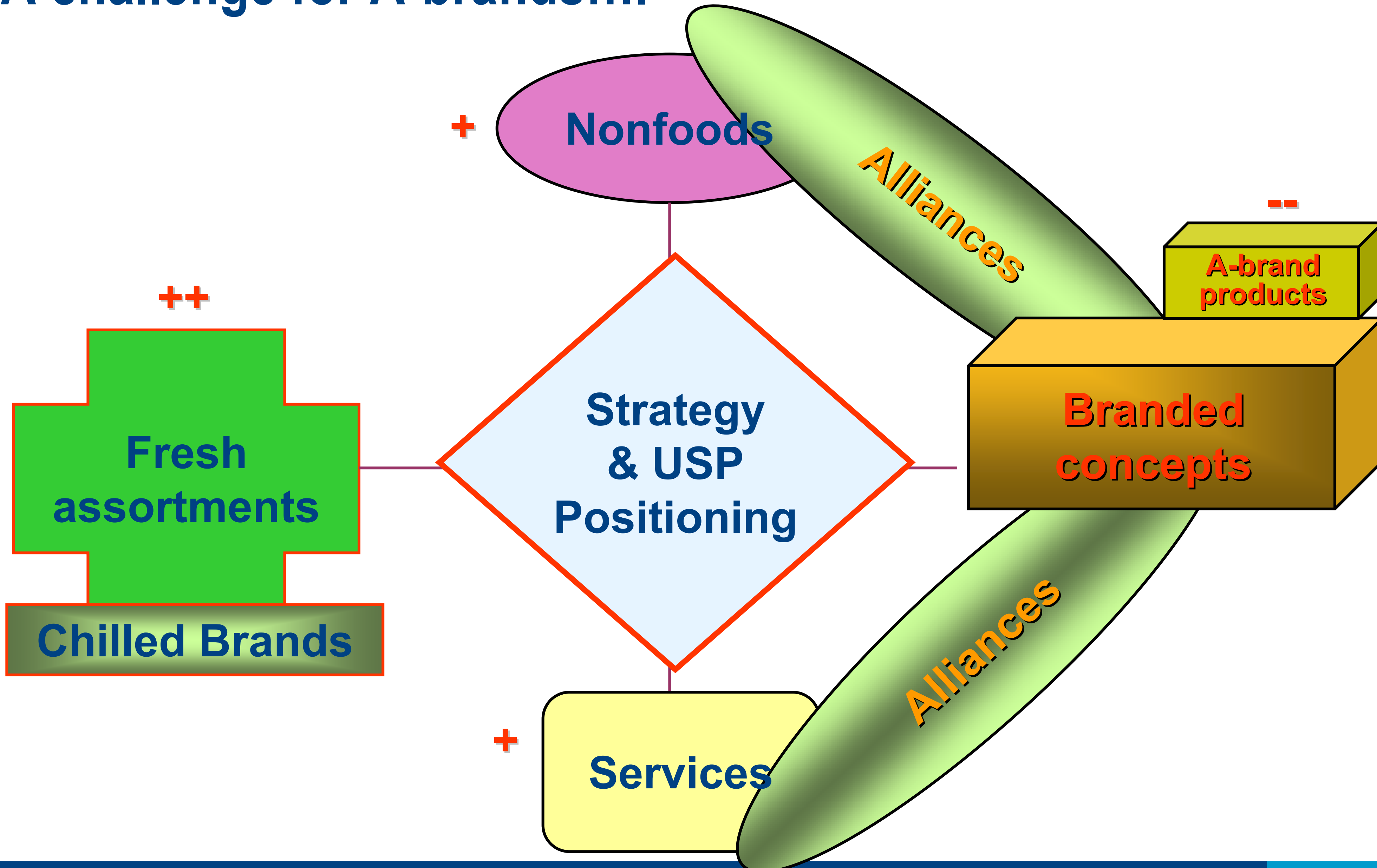
Incapable to react adequately on trends ...

- Mom-and-pop stores
- Neighbourhood stores
- Soft discounters

How retailers select create segmentation in their assortments…



A challenge for A-brands....



Seven paradoxes in company-strategy

Key People Loyalty vs CEO-loyalty

Accountability vs Best Strategy

CEO on public platform vs Reliability & Integrity

Companies choosen Leadership Style vs Local Culture

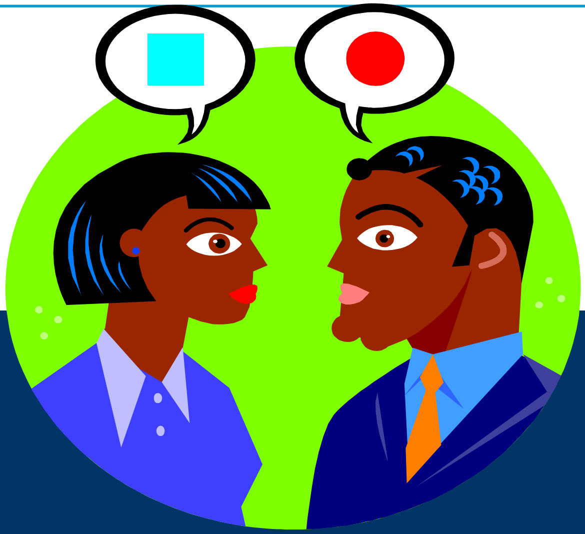
Optimal Growth

Management Rotation vs Best Practice Implementation

Stock-market expectations vs Stakeholders expectations

Innovation in Long-term or short-term Environment?

Dilemmas, paradoxes contradictions, and new paradigms!



- Food is retail AND convenience AND Out of Home?
- Globalisation of brands AND Local relevancy?
- Standardisation of Master Brands AND maintaining Local jewels?
- Manufacturing is A-Brands AND Private Labels?
- Mass production AND customisation
- Transparency AND maintaining Unique Selling Propositions?

- Price AND Customer service?
- New economy AND Old economy?
- Mature markets AND Emerging markets

Summary

- **Some outlet-concepts will develop themselves to brands**
  - They need building stones
  - They want to control the chain in several categories
- **Global sourcing will increase, but that means new chances for local jewels**
- **Global branding will meet difficulties**
  - Local relevancy is needed
  - Branding in Fresh will follow
- **In mature markets we move from content to context**
  - Understanding the changing consumer needs
  - Controlling the food chain for cutting costs and control quality reputation
- **There is an upcoming market for premium private labels**

If you want to know more?

- Please order and read the 600 pages of State of the Art Book, including most of the CEO interviews.
- Interested in dedicated brainstorms or discussions around the best policy to anticipate on all the expected changes,…
- Get in touch with us. You can call me directly: +31.653.232.772.
- Or mail me: j.grievink@chello.nl
- Or leave a business card with me or my colleagues