



Munich, 19<sup>th</sup> June 2008

## **How a tough home market can lead to business excellence: the view of a German retailer.**

**Address by Alain Caparros,  
CEO of the REWE Group**

### **CIES 52nd World Food Business Summit**

How can Germany's intense competition make a company perform at its best?

There is one point that is crystal clear when you look at our sector. And I would like to add that this point does not just apply to Germany but seems to be particularly true here: We must change fundamental aspects of our business. We must revolutionize parts of it. And we must get started quickly! Most of the things we do today are based on traditional business models, or on sector customs, if you will. If we continue to take this approach, then – I fear – we, retail and industry, will drive off a cliff side by side.

I would like to address three key issues:

- First, the intense focus on the principles of sustainability and social responsibility.
- Second, the creation of strategic alliances as an alternative to concentration.
- Third – a point that generated a lot of talk but little productive action so far – cooperation between retail and the consumer-goods industry. We as retailers bear a particular responsibility. We should act like role models – but actually we don't always do so (yet).

Let me begin with the subject of sustainability and social responsibility. Increasingly, we see that our customers in grocery retailing expect much more from us than low prices. They want "fair" prices and "fair trade." And this approach should be a business-defining attitude, and not just a marketing gag. Customers are extremely sensitive to the ethical, social and environmental aspects of our business. David Bosshart, the director of the Gottlieb Duttweiler Institute for Market Research in Zurich, once said: "The fight in years to come will be the fight for the end customer's trust."

One could say: Away from competition on price to competition on trust. Today, we are already seeing in our markets just how accurately David Bosshart described the trend. The trust that we must (once again) establish with our customers cannot be created through marketing or gimmicks. And, if you will permit me to direct one comment to our political leaders, we will definitely not achieve this with things like a nutrition traffic light system.

We are locked in a new qualitative competition for customers' trust. Here, we can create something of substance or fail. There is nothing in between, I'm afraid.

We must provide answers to environmental and social challenges not only at the point of sale but also along the entire value chain. Energy supplies are just one example of this. Since the beginning of this year, the REWE Group in Germany has been using electricity

generated completely from renewable energy sources. Today, we are Germany's biggest user of bio-electricity. This is not some sort of environmental fad. Rather, it is a responsibility that we assume in our portion of the value chain – in our warehouses and in our supermarkets. Many of our customers are assuming this responsibility in their homes as well. What about our suppliers? Are they also taking responsibility for our natural resources?

In the future, our customers will pay much closer attention to the way that products are made and processed. For this reason, environmental protection is not only sensible, but also good for business. It creates a competitive edge and builds a solid foundation for tomorrow's turnover. When it comes to the costs of this commitment, I have just one thing to say: If we as retailers can afford this effort, then I do not think industry will have any trouble affording it either... After all, one point is clear: We must afford it. They must afford it. Both of us simply cannot afford anything else... Ladies and gentlemen, the second issue that I would like to address today involves the ability to cooperate and form strategic alliances. The REWE Group is a cooperative business group that puts a premium on the values of partnership and mutual support. At times, the cooperative model has been pronounced dead. But let me tell you this: It is as alive as ever has been!

Today, more than 80 years after REWE was established, cooperation in retail has taken on an entirely new dimension: the international dimension. One prominent example of this is the international **strategic alliance COOPERNIC** that was set up two years ago. COOPERNIC is a strategic alliance of five independent retail companies: Colruyt (Belgium), Conad (Italy), Coop (Switzerland), E. Leclerc (France) and the REWE Group. COOPERNIC represents total turnover of more than 100 billion euros – but just not on one P&L statement! The member companies do business in 18 European countries. Our partnership has three essential goals.

**First**, we expand our individual product lines through the exchange of know-how and sales experience. Yes, ladies and gentlemen, even successful companies can, no MUST, learn from one another. Certainly, congresses and benchmark analyses are one thing! But long-term partnerships in projects are something that just can't be beat.

**Second**, we are cutting costs in order to be able to offer the consumer lower prices resulting from jointly conducted negotiations. It would be unfair not to mention the subject of procurement at COOPERNIC. But: It is "value for money." The partnership also does something for money on the part of producers, too!

**Third**, we open new international growth opportunities for our company. Opportunities that we would not have had on our own!

I would like to stress one point: In COOPERNIC, each company maintains its independence in terms of procurement as well as in terms of national, regional and local suppliers. In the true and proven cooperative sense. But: We jointly develop the power we need to take on the likes of Carrefour, Tesco and other Big Players as equals.

In the past two years, COOPERNIC has succeeded in optimizing the purchasing of important brand products. This means one thing for the customers of each partner company: better prices!  
At the same time – and remember I mentioned value for money – producing companies profit from coordinated, international activities – in such areas as marketing and sales promotion.

In addition, COOPERNIC offers regional and mid-sized producing companies in particular access to new international markets and sales networks. This is something that we as a partnership can do better than the monoliths: Five supplier networks simply offer more than a single one does!

In the area of international expansion, COOPERNIC creates totally new developmental opportunities.

In December 2007, COOPERNIC carried out its first acquisition, obtaining an 80 percent stake in the IKI retailing chain in Baltic states. The IKI Group operates more than 200 modern supermarkets and discount stores in Lithuania and Latvia. IKI is the No. 2 in Lithuania and the No. 3 in Baltic grocery retailing – it is a very strong company, and all COOPERNIC partners can profit from its success.

New thinking was necessary: Five strategic investors, as financiers would call it, took one joint step. It is very possible that further steps will follow on the long, shared journey.

While I am still on the subject of COOPERNIC, I would like to say a word about an unpleasant issue that people quickly associate with it: retailing's presumed "market power."

The assertion that retail's purchasing power poses a threat to the consumer-goods industry and market mechanisms is – and I must say this clearly – completely wrong. Please just take a close look at the facts! Examine the return on sales of international retail companies, where 5 percent represents a leading position. Now, look at the same figure for international consumer-goods makers: Unilever 13 percent, Nestlé 14 percent and Danone 14 percent!

Of course, I realize that different refinancing models exist for industry and retail, and that it is difficult to compare the figures. But the price lever cannot constantly be applied to the margin side of the retail business without the other side of the table remaining untouched.

The consumer-goods industry must realize that retail cannot simply move prices up or down. Likewise, retail cannot further reduce its already low margins. As retailers, we must be particularly vigilant and ensure that we always remain attractive – not only to our customers but also to managers and employees. Our talented young managers need good career opportunities. To help such people get ahead, the REWE Group set up its own internal university, the REWE Campus, last year. This campus is a tailored suit of strategic human resources development. It helps us work in an increasingly complex business world, offers us a global understanding and enables us to act locally.

I want to make one point quite clearly: The attractiveness that retailing needs cannot be achieved without healthy earnings in retailing. This is something that industry must – and will – grasp.

Ladies and gentlemen, this has brought me to the heart of my third issue: cooperation between retail and industry. Does it exist? I realize that countless speeches and congresses have been devoted to this topic. But does it really exist? Perhaps, this year's CIES summit can give a boost to a truly SUSTAINABLE culture in the relationship between the consumer-goods industry and retail – that would be an achievement that the organizers could celebrate for years.

I would like to stress one point: There must be something more than annual negotiations. Do you know what the problem of the annual negotiations is? It does not interest our customers at all, not in the least. We talk with our counterparts, celebrate our sector's ways of doing business and forget all about our – joint – customers in the process. Instead of working on solutions for our customers, we talk about conditions. This must change. We must develop new forms of mutually beneficial cooperation. This will require us to cut our ties to old concepts. I am convinced of one thing: The era of antagonism is coming to an end. East versus west, capitalism versus communism – that is over politically!

But the world has not just changed in political terms. It has changed in economic terms as well. For a long time now, we have been part of a globalized competition of values. Trust instead of price; Cooperation instead of confrontation; Win-win-win instead of win-lose – these are issues on our agenda today. No, these SHOULD be the issues on our agenda today. But we have not put them there yet.

I am not naive, ladies and gentlemen. I realize that I have taken on a very complicated and challenging subject by mentioning the relationship between retail and the consumer-goods industry. And I also realize that no simple solutions exist here. But I think there are a variety of points where we can start. And it will be worthwhile to address them. I think any work on the renewal of the relationship between the consumer-goods industry and retail should start with a realistic estimation of mutual expectations. We have to fully understand that retail and industry have different starting positions and interests.

We have different business models, margins and yields. In addition, both sides have a very heterogeneous structure. In specific terms, this means: When we talk about retailers, we mean the big players like Tesco, Carrefour, Metro or REWE on the one hand. But, on the other hand, the overwhelming majority of global retail turnover is generated by small companies. The same is true of producers: We talk about the big players like Nestlé, Unilever, Procter & Gamble. At the same time, though, there are a huge number of local and regional producers who are extremely important to our business. The important point to remember is that both sides clearly recognize these differences. Transparency is the central starting point for future partnerships. Transparency is the basis of mutual understanding and credibility. If we define transparency, mutual understanding and credibility as starting points, we must also ask ourselves a question: Where are we heading?

As vacationers, we all know that there is a difference between a trip to France and to Finland. Please don't get me wrong: Both destinations have their own appeal, no doubt about it. But they are also clearly different.

For this reason: We must keep our destination clearly in focus. And I think that there is a clearly definable goal for both of us, retail and industry. There is one goal that we can quickly agree on. **That is added value for the end consumer, the added value for our customers!** Focusing on added value for the customer is an increasingly complex job. The reason for this is clear: It is becoming more and more difficult to understand customers given all of their thoughts and impulses.

Just take a look at ourselves for a moment!

As consumers, we behave in a distinctly unusual way. We are stubborn, idiosyncratic and erratic. Our actions no longer follow any particular law: We drive Porsches and scrimp on groceries.

We combine Prada with H&M and fly off to Paris with a ticket costing 28 euros for a luxury weekend at the Ritz or Plaza Athenee.

The logic of simple truths – black and white, good and bad – no longer exists. Our society has brought forth new types of customers from the jumble of attitudes and influences, experienced emotions and changes. Today, our customers are smart shoppers or hybrid consumers or clever cosmopolitans or illiquid traditionalists.

Ladies and gentlemen, **our customers** view us, retailers and industry, jointly as service providers. They expect us to serve up solutions, spot their needs and create better and better ideas. For this reason, **we** must stop thinking in terms of products, brands and categories. And we must start thinking in terms of problem solving. We jointly must see the world from the consumers' point of view. By doing so, we will realize that: Our customers want us to hammer the nail into the wall and hang the picture for them. They do not want us to sell them a hammer and picture frame. Customers want services. For this reason, retail and industry have the joint opportunity of developing and offering services.

Ladies and gentlemen, if we energetically work together in this manner to adapt our business to the needs and desires of end consumers, then we will accomplish the most important goal: the creation of added value.

In taking this approach, true win-win-win situations will emerge from the win-lose situations in which we are still trapped today: Retail, industry and consumers will win together.

Are you now asking yourself about specific starting points? I would like to make two short suggestions at the conclusion of my address – after all, my speaking time is running out: First: We need more real product innovations. More than 80 percent of all presumed product innovations have disappeared from our shelves after only one year – for lack of sales. I am convinced of one thing: With the knowledge about customer needs that we as retailers could provide, industry and retail would jointly have a much bigger chance of creating a long-term home for REAL product innovations in the market. Second: We also need products that are more closely geared to specific target groups. Retail is already working on formats of the future that are designed to address demographic change – more older customers and more customers with a migration background. Why aren't we – retail and trade – also working on more products for specific target groups – more products for an aging population and for people who – in the truest sense of the word – come from all corners of the world and shop in our supermarkets?

Ladies and gentlemen, my fellow countryman, the writer André Gide, once said: "You cannot discover new parts of the world without having the courage to let old coastlines slip from sight."

We need this courage – on both sides – if we are really to set off for new horizons together. I will do as much as I can to make my contribution to this effort. On July 1, 2008, I will become president of COOPERNIC. In this position, I will work to the best of my abilities to bring new energy to the relationship between the consumer-goods industry and retail.

Ladies and gentlemen,

- Sustainable actions,
- Strategic alliances,
- A new relationship between retail and industry

These are three of the key focal points of retail in Germany and Europe. Anyone who wants to succeed in the tough competition of tomorrow will have to thoroughly consider these issues and pose the necessary questions.

*For further information,  
please contact [Anne Malbrancq](#)  
on +33 1 44 69 99 20 or on +49 (0) 17 617 368 903  
during the CIES Munich Summit.*