Summit Highlights Day Two

Leclerc defends hypermarket model

Michel-Edouard Leclerc, Co-President of French group Centres Distributeurs E. 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 Systeme 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 insisted. 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 it will then slow as it becomes more upscale.

Spar competes through new formats and international expansion

Gordon Campbell, CEO of SPAR International, explained that his group has responded to the challenges of falling shelf prices and a squeeze on margins 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 500 sq m 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.

"Passion for food" boosts market share for Delhaize

Arthur Goethals, CEO of Delhaize Belgium, 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. **Executional 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.

European survey shows value for money, not price, is key for consumers

Dominique Reiniche, President European Union Group of The Coca-Cola Company, and **Peter Child**, Leader of Global Retail Practice at McKinsey & Company, presented the results of a pan-European consumer survey conducted by the Coca-Cola Retailing Research Council Europe (CCRRCE) and McKinsey & Co.* The study analysed shoppers' store selection criteria, the economics of hard discounters and actions retailers must take to remain competitive. 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, each with a different definition of value. Some national stereotypes were found: British shoppers were more image-conscious, high-income German shoppers were price-conscious, and French shoppers tended to be more focused on quality as well as value.

Overall, naturally discount shoppers only account for around 20% of the European shoppers surveyed. Non-discount grocers need to understand the differences between these segments. Specifically, they have to choose their target shoppers, be acceptable on price and then "become famous for something" that matters to their target shoppers.

**"Responding to Discount: A New Business Model for Food Retailers?" An executive summary of the study was released at the Summit. To request a copy, please contact Thomas Vadeboncoeur, Research Director, CCRRCE (Tel. +44 7785 326460).*

Research institute explains "Aldi-isation" of consumers

Stephan Grünewald, Managing Director of the Rheingold Institute for Qualitative Market and Media Research, described the "Aldi-isation" of German consumers, as explored through 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: the 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.