



# **The World Food Business Summit 2003**

Palau de Congressos de Catalunya, Barcelona 18-20 June 2003

## **Executive Summary**



## Barcelona Summit Quotes

“We have a responsibility to rebuild public confidence in our companies and our own confidence in our environment and our future opportunities.”

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

“Retailing has always managed to adapt in order to meet the needs of the communities in which it lives on a daily basis.”

*Daniel Bernard, Chairman & CEO, Carrefour Group*

“The equity of a brand is not about marketing ... but a rare emotional connection between the buyer and the product.”

*Howard Schultz, Chairman & Chief Strategist, Starbucks Coffee Company*

“People before profit is what it is all about. If you put people before profit, the business will take care of itself.”

*Sean Summers, CEO, Pick 'n Pay Retailers, South Africa*

“[The food industry] is the closest bridge between the intimacy of culture and the utility of markets.”

*Jeremy Rifkin, President, Foundation on Economic Trends*

“If people no longer believe in your products, your business will die.”

*Sir Bob Geldof, Musician and Founder of Live Aid*

## Barcelona Summit Conclusions

**Success in an Age of Scepticism:** to overcome the deep scepticism of today's society, companies need to demonstrate that their core values are not confined to annual reports but shape all their actions. A genuine commitment to people is fundamental to rebuilding public confidence in business. This commitment should begin with employees, since the expectations of consumers cannot be met if the staff serving them are not valued.

**Bridging a divided world:** it makes both ethical and business sense for companies to address the needs of the large underserved populations of developing countries. The food sector cannot solve all the world's problems but it can contribute to improving the standard of living of low-income consumers. However, local partnerships are crucial if companies are to understand the specific demands of these communities and support sustainable enterprise within them.

**Beyond regulation:** scepticism about business has raised the prospect of sweeping regulation in areas from corporate governance to advertising. Such a knee-jerk reaction would damage the interests of the vast majority of honest companies in order to sanction a handful of irresponsible ones. In particular, the social and economic benefits brought by modern retailing depend on the freedom to trade and invest.

**Breaking the mould:** market leaders are more than ever at risk from intelligent, values-driven challengers in a fast-moving, communication-based age. For size to be an advantage, it has to be leveraged with a clear vision focused on current consumer needs.

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# Opening Session: Success in an Age of Scepticism

## Welcome from the CIES Chairman

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

Pierre-Olivier Beckers began by giving delegates an update on **CIES' five strategic priorities**, which he first outlined at last year's World Food Business Summit in Atlanta. He summarised the key developments as follows:

- **Extending the international reach of CIES:** as set out in Atlanta, CIES has increased its contacts with both foreign and domestic companies in China and established a full office in Japan, reflecting strong Japanese involvement in CIES at board level and in its different programmes.
- **Clarifying the role of the different industry associations:** the process of developing greater cooperation between the associations continues to move forward. The joint organisation of Global CEO Forums over the past two years by AIM, CIES, FMI and GMA illustrates this positive trend.
- **Promoting common standards:** there is an urgent need in the food retail and manufacturing sector for common standards and a common technical language. The work undertaken towards this goal on all sides has begun to bear fruit. The Global CEO Forum, co-organised by CIES with FMI, GMA and AIM, has been instrumental in bringing companies round to endorsing and supporting the considerable efforts made by EAN, UCC, ECR and GCI.
- **Implementing the Global Food Safety Initiative:** implementation of the Global Food Safety Initiative and its benchmarking programme continues. GFSI will allow food companies to communicate confidence in the standards they use, while also reducing costs.
- **Image of the Food Business initiative:** the launch of the initiative has met with extraordinary support and enthusiasm from CIES member companies. The focus of the initiative is the contribution of the food retail sector to the community, given that companies have not been very good at structuring and communicating all the benefits that the sector delivers to the market, the economy and the society in which it operates. A Task Force is now working on how to ensure existing efforts in this area are given the wider resonance and audience they need.

Turning to the theme of the Summit, "Success in an Age of Scepticism", Pierre-Olivier Beckers called on companies to take responsibility for rebuilding public confidence in business. In a context of economic and political uncertainty, corporate scandals have seriously eroded trust in business, he said, as shown by a recent public survey by the World Economic Forum in which companies were rated the least trustworthy institutions after national parliaments. Beckers noted that this general scepticism on the part of consumers was also affecting the retail sector, particularly in view of market saturation and aggressive price competition.

To rebuild public trust and avoid excessive regulation, he argued, companies will have to put people at the centre of their strategies and demonstrate a corporate conscience beyond the necessary maximisation of profit. We are living in times of challenges, he concluded, but it is in such times that

companies and societies in general can display their coherence, their resilience and their capacity to stretch further in order to build the future.

## **Keynote Opening Address – Success in an Age of Scepticism**

*Josep Piqué Camps, Minister for Science and Technology, Spain*

If the fall of the Berlin Wall marked the end of the 20<sup>th</sup> century, the 21<sup>st</sup> century began with 9/11, argued Josep Piqué. This defining moment reinforced the widespread uncertainty created by the rate of change and the disappearance of borders – physical, economic, technical etc – that are characteristic of our age. Against this background of global uncertainty, the European Union is attempting to complete the integration of 10 new member states and draft its own constitution. But these goals have been complicated by the structural crisis affecting Germany, the traditional driving force of the EU.

Reform will thus be crucial, he stressed, if Europe is to regain strong growth levels. The Lisbon strategy of 2000, which aims to make the EU the most competitive knowledge economy in the world, in compliance with sustainable development and social standards, shows that Europe is serious about tackling reform. The subsequent agreement to open up fully electricity, gas and telecommunications markets, signed at the Barcelona Summit in 2002, provided some important concrete action in support of the Lisbon accords. However, given the difficult current climate, Lisbon needs a further boost, particularly in view of the EU's lower GDP growth last year compared to the recession-affected US.

Among the reforms required to make Europe more competitive, innovation will have to be a main focus, he insisted. The EU's current rate of investment in research and development (R&D) – 2% of GDP – trails both the US (2.6%) and Japan (3%), and also fails to meet the 3% target set at Barcelona last year. Four key areas need to be addressed if this shortfall is to be made up:

- *Solving the 'European paradox':* scientific prowess is not converted into entrepreneurial success for society.
- *Private sector investment:* the Barcelona Summit announced the objective of achieving two-thirds funding of R&D from the private sector, which compares with three-quarters in the US.
- *Greater international cooperation:* such as the Galileo project.
- *Developing a culture of innovation:* involving schools, universities, business and other sectors in technical innovation.

In this challenging context, Spain offers an illustration of success as a country that has developed a strong, outward-looking economy. The international investments of Spanish companies have turned Spain into a net exporter of capital, while its overall growth has kept its GDP above the EU average, creating one in four new jobs in the EU since Lisbon. But the country can not afford to rest on its laurels, he concluded, and has to focus on building a technology and efficiency-driven economy. It was therefore seeking to boost R&D investment through a national plan to be launched in 2004, in which the food sector will be one of the priority areas. Looking further afield, Spain is continuing to develop its international role, notably through its cultural links with the Spanish-speaking world of North and South America and closer ties with Asia, the most dynamic regional economy in the 21<sup>st</sup> century.

## **Retailing in an Age of Scepticism**

*Daniel Bernard, Chairman & CEO, Carrefour Group*

All periods of transition produce scepticism and this mood of uncertainty today has been encouraged further by an oversimplified understanding of the process of globalisation. However, despite the inevitable crises, we will witness during the 21<sup>st</sup> century rising standards of living for hundreds of millions of people around the world, Daniel Bernard predicted. The role of retailers and manufacturers, he argued, is to continue creating prosperity through trading, as they have done for centuries. At the same time, retail companies will have to take into account changes in society by integrating an ethical dimension into their strategy, or else risk paying a heavy price in the future. Equitable globalisation was possible, he stressed, through sustainable development balancing social needs with economic rules and environmental protection. This position is reflected in Carrefour's decision to publish a separate sustainability report in 2001 and to adhere to the UN's Global Compact.

Given the difficult global economic context, cooperation between retailers and suppliers is crucial to continue adapting the retail offer in response to consumer needs. This cooperation should cover all areas of strategy, he argued, from international expansion to promotional campaigns. Certain suppliers were sceptical about the interests of retailers, given their scale in today's consolidated sector. However, it was the scale of leading retailers that supported a wide range of large and small suppliers, he insisted. Carrefour, for example, worked with 14,400 different partners last year. These included 300 small fruit and vegetable producers in Spain, who now supply Carrefour stores across Europe.

This dynamic economic role is not always recognised by governments, he noted, as shown by regulations covering areas such as opening hours and TV advertising. Such protectionist behaviour on the part of governments was paradoxical given that other trade barriers are falling as countries move towards a more open, consumer society. Regulations would act as a brake on retailing, he argued, which continues to grow by adapting to the economic climate and consumer needs. The sector cannot solve all society's problems but it can bring solutions based on proximity and a good price-quality offer, he concluded.

### **Q&A**

Asked what were the real daily concerns of consumers beyond the general debate about globalisation, Daniel Bernard said that employment was the number one concern, followed by savings, pensions, health and education. Carrefour's response has been to expand further its assortment – extending entry price and private label for example – to offer good value in competition with discount chains. With new crises emerging every week, retailers had to demonstrate their 'reactivity', even if governments felt that this was a challenge to their relationship with consumers, he noted. On the question of discount competition, he said that it had a positive impact in showing the need to offer a basic, no-frills range, while also reminding retailers to keep prices down. With 60% of Carrefour customers also shopping at a hard discount store, the retailer had to adapt to this demand through its price strategy.

## Winning in an Age of Scepticism

Jacques Rogge, President, International Olympic Committee

In order to win in an age of scepticism, Jacques Rogge argued, you have to know what success is. Although a non-profit organisation, the International Olympic Committee (IOC) faces many of the same responsibilities as business, he explained. He outlined its key performance measures as follows:

- *Revenue distribution:* while it does not have any shareholders, the IOC distributes US\$3.5 billion among its stakeholders between each Olympic Games. These redistribution grants play an important role in making sport more egalitarian by allowing more countries to compete at the Olympics.
- *Social Responsibility:* like business, the IOC fulfils a social role by funding various social projects. Education is its primary activity, both in terms of supporting young talent and helping retrain athletes for other professions at the end of their sporting careers.
- *Values:* like business, the Olympic movement works to respect a number of core values as the basis of long-term success. Key priorities include fair play, health, sustainable development, equal opportunities and governance. Doping has emerged as a major threat to the credibility of sport, not just in terms of fair play during the games but also the willingness of parents to send their children to clubs.

Despite recent crises such as 9/11 and SARS, sport is enjoying a 'golden age', he stressed. Participation is truly global, with sports clubs boasting 750 million members worldwide. While the handful of stars attract much of the attention, 99.7% of athletes are still amateurs, including 15 million football players in the EU. Participation in sport is also reflected in TV viewing figures, with 2.5 billion viewers for the Salt Lake City Winter Olympics, and corporate investment, with large media contracts signed for future games.

The challenge, then, is to maintain this 'product quality', firstly by keeping the same 'winning team' of the Olympic symbols, the once every four years calendar and the universality of the competition. But the IOC also has to innovate, by introducing new sports and technology, while at the same time cutting costs in order to make sure its US\$5 billion budget is used efficiently. Most importantly, the movement's values have to be preserved in order to overcome the scepticism of today. The IOC remains confident about the future, he said, partly because governments recognise its educational role, and partly because it draws on the human instinct to play, which is as inherent as the instinct to consume. There was thus no scepticism within the movement, he concluded, which had survived the terrorist attack at the Munich Olympics and a series of doping scandals. Above all, sport continued to offer a unique spirit in our performance-based society, allowing everyone to be a champion in their own right.

### Q&A

Concerning the threat to the next generation of athletes posed by doping, Jacques Rogge said that the IOC was very concerned about the potential loss of trust among parents. The movement's response went beyond testing to education programmes in schools and prevention measures, such as ensuring competitions are compatible with normal physiological capacities. On Beijing's nomination for the 2008 Olympics, he underlined the importance of giving the games to one-fifth of the world's population. A spirit of openness in economic activity and a sophisticated culture also made China an attractive choice, he said.

## **Business Session 2: Breaking the Mould**

### **Bridging the Gap between Global Commerce and Local Culture to Exceed Consumer Expectations**

*Jeremy Rifkin, President, Foundation on Economic Trends*

The huge increase in the speed of communications has led the world not into a new economy but a whole new economic system, insisted Jeremy Rifkin. Traditional market capitalism, based on property transactions, is being overtaken by access relationships in networks. This shift is comparable to the revolution in feudal society caused by the invention of the compass, the mechanical clock and the printing press. In this new reality of access, human experience has become content on which consumers spend money. So when you buy a pair of Nike trainers, only a fraction of the price reflects the production, the rest relating to the experience that the product offers. But what happens if human experience is reduced to mere marketing?

The issue of genetically modified or GM foods illustrates this problem. The debate between the US and Europe will be one of the key struggles of the 21<sup>st</sup> century, he argued, defining food, global trade and culture. When it introduced GM crops to Europe, Monsanto failed to grasp the specificities of the continent, where there is a seamless relationship between food and culture. Like so-called 'third-way politics', Monsanto's approach reflects the idea that the markets, or our material identity, are primary. But this is wrong, he contended, since societies create culture first and then markets. This lesson is critical for the food industry since it represents the closest bridge between the intimacy of culture and the utility of markets.

The question of GM foods is thus a wake-up call against the idea that markets comes first. Jeremy Rifkin outlined some of the key issues at stake in the GM debate:

- **Environment:** GM companies claim that modifying nature has always been part of human history but current GM developments involving the crossing of different species are totally different from traditional cross-breeding. Examples include the transfer of a light-emitting gene from a firefly to a tobacco plant.
- **Food safety:** since mixing genes has no historical precedent, it is hard to predict what will be the consequences of GM foods for human health. McDonald's decision to eliminate anti-biotics from its meat is in line with longstanding medical opinion on the effect on human resistance to bacteria, but was taken 20 years too late.
- **Liability:** with the impact of GM foods on the ecosystem so hard to predict, insurance companies will not cover businesses. A lot of litigation lies ahead if it remains unclear who will foot the bill for any future disaster.
- **Third-generation foods:** the alternative to current GM foods lies in using gene technology to improve on traditional cross-breeding in a way that is compatible with the environment.

The food industry has proved itself more sensitive than other industries in dealing with consumer concerns. Food companies in Europe showed leadership in providing GM-free foods for consumers. But they now need to develop a global position on the issue, particularly as the prospect of contamination between GM and non-GM crops mean that separate policies for Europe and other regions will no longer be feasible. The best legacy the food sector can leave for the 21<sup>st</sup> century, he concluded, is to give people the kind of food they want, thereby being a bridge between business and communities.

## **Ryanair – The Flying Cash Register**

*Joe Gill, Head of Institutional Equity Research, Goodbody Stockbrokers*

The airline industry is dominated by well-established groups but these are being challenged by a handful of young low-cost operators, Joe Gill explained. This trend started first in the US, where low-cost airlines increased their market share from 7% to 25% during 1990-2002. But the low-cost model is now impacting the European market as well, helped by the deregulation of the industry in 1997. The market share of such operators is forecast to rise from the low single digits in the 1990s to 14% by 2007, supported by the enlargement of the EU.

Ryanair has driven the growth of the low-cost airlines in Europe, attracting customers away from traditional carriers at main airports. Its strategy is based on 'sweating assets' as follows:

- *Simple point-to-point model:* the company runs A to B routes with no transfers and charges for all onboard refreshments.
- *More time in the air:* Ryanair pilots fly 800 hours per year, compared to the European average of 450-550, while planes turn around in 30 minutes, compared to the industry average of 1 hour.
- *Web minimises costs:* 96% of tickets are sold online, removing the need for a network of travel agents. Ryanair can thus enter a country quickly by developing a web page in the particular language.
- *Shrewd acquisition of new planes:* the company has steadily expanded its capacity by buying larger planes, taking advantage of the post-9/11 slump in the airline industry to order around 150 Boeing 737s for US\$25-30 million each (cf. standard price of US\$62 million).
- *Use of secondary airports:* Ryanair avoids using main airports, which are expensive and highly congested. Given the high population density in Europe, flying to secondary airports still allows it to serve a large customer base.

A new world order is emerging in the airline industry, argued Joe Gill, led by Southwest in the US and Ryanair in Europe. Their stock market valuations as a ratio of revenues far outperform those of their rivals, showing that the markets agree that the low-cost model will transform the sector. Moreover, Ryanair has the best balance sheet of any airline in the world at the moment, he insisted, a fact linked partly to the management's stake in the company's equity. In conclusion, Joe Gill offered some lessons for retailers:

- Price and access are key revenue drivers
- Low unit costs are key to competitiveness (cf. failure of low-cost ventures of KLM and BA)
- Focused leadership – e.g. Michael O'Leary of Ryanair and Herb Kelleher of Southwest
- The established order can be destroyed!

## **“Eating the Big Fish” – Why number 1 will have to think like number 2 to survive**

*Adam Morgan, Founder, eatbigfish*

Most companies spend too much time studying the competition and as a result lose their differentiating characteristics. This situation is reflected in a survey from last year showing that US consumers found only 7% of a total of 340 prime-time TV commercials offered a differentiating message. Such perceptions are bad for established brands but are catastrophic for challenger brands, which by

definition have to be noticed. Adam Morgan explained some key lessons or 'credos' for challengers, based on his research covering over 160 brands:

1. **Break with your immediate past.** Lack of experience, or 'intelligent naivety' to be more precise, is a vital asset for challenger brands, since it allows them to rethink a category by asking fundamental questions. Examples of famous CEOs that came into a sector without prior experience include Herb Kelleher, founder of Southwest airlines and a former lawyer, and Jeff Bezos, founder of Amazon and a former hedge fund manager.
2. **Build a lighthouse identity.** Many companies spend a lot of time talking about how they understand the consumer but challenger brands use this understanding to project a strong identity based on a vision of the world. Examples include Swatch's development of a personal culture surrounding watches and Apple's relaunch in 1997, founded on the idea that people with passion can change the world for the better. Food retailers are in a good position to communicate a brand identity given the media exposure created by stores but they must use this channel properly. To do this, companies have to recognise that brand is not a department like marketing. Strong beliefs are crucial because consumers will not care about companies if they do not care about themselves.
3. **Assume thought leadership of the category.** There are two kinds of brand leadership, market leadership and thought leadership. The first enjoys dominance in terms of distribution but the second has people talking about it. To become a thought leader, a brand has to break with consumers' expectations of a category through representation – i.e. what you say about yourself –, medium – where and how you say it –, and experience – what you do beyond talking.
4. **Sacrifice.** Indifference, not rejection, is the greatest danger to challengers, so they have to be prepared to sacrifice some consumers in order to attract others. Sacrifice is thus not about focusing or reordering existing priorities but taking certain ones off your list entirely. DaimlerChrysler has understood this point by promoting a range of cars that were rejected by 29% of a consumer sample but loved by over 40%.

So what are the lessons for market leaders? Having turned themselves from challengers to leaders, such brands need to continue behaving like challengers, Adam Morgan argued. The danger is that these companies fall into the trap of trying to be all things to all men, when in fact their market is still a minority of consumers. The success of Nike, Microsoft and Intel shows that you can leverage the scale of a leader while projecting the identity of a challenger. For ultimately, leadership is a state of mind, which determines whether you are a challenger or a Big Dumb Company (BDC).

## **Doing Business in the World's Biggest Economy: Unleashing the Power of Four Billion People, One New Enterprise at a Time**

*Craig Cohon, CEO, Globalegacy, and Jeb Brugmann, President, Globalegacy*

Craig Cohon and Jeb Brugmann presented delegates with their project for creating businesses to serve the four billion people in the world who live on less than US\$1,500 per year. Cohon, a former executive with Coca-Cola, and Brugmann, a veteran of NGOs, both left their established careers with the aim of building a new kind of capitalism to serve this vast low-income market. Old ways of thinking have blinded companies to a giant space for business growth and social impact, they argued. The international expansion of food retailers reflects this prevailing thinking. CIES' 2002 database on the Internationalisation of Food Retailing reveals that such development overwhelmingly targets upper and

middle-income countries, with international retailers only operating one store for every 374,000 people in the lower-middle group and one for every 3.4 million in the low-income category.

Such figures represent an incredible opportunity for business growth, particularly considering low-income consumers spend between half and two-thirds of their income on food. South Africa provides an illustration of the growth issues relating to different income groups. It has seen the highest rate of store development by international retailers among lower income countries (24% of the total) but most of these stores are targeted at the high-income sections of the population, which provide better margins.

However, in the long-term, the affluent offer only limited growth potential to food retailers. Significant growth will come from securing the loyalty of customers at the bottom of the income scale and helping them move up into the middle class. But to support rising incomes, companies will have to be much more serious about poverty elimination. The South African example shows that low-income consumers are developing fast, with spending on food now claiming only 19% of the budgets of black households. Pick 'n Pay has in fact put this growth lesson into practice by serving all socio-economic groups through a range of formats adapted to local food channels.

But in most cases, poor communities around the world are being served by a different, informal food industry. These channels fail to address the basic needs of consumers, providing poor quality, variety, safety and supply. Such deficiencies create a huge cost in terms of malnourishment and deaths.

The formal food industry faces three choices in response to this context:

1. Accept that the industry will only serve 15-25% of the world's population and market (i.e. The Law of Diminishing Marginal Customer Loyalty).
2. Go into competition with the small suppliers and retailers that serve the other 75-85% of the world (i.e. The Law of Diminishing Marginal Brand Integrity). This risks creating a social disaster, since hundreds of millions of consumers depend on growing and selling food for their basic family income.
3. Partner with the 'Other Food Industry' to improve businesses and services and grow joint business opportunities from the bottom up (i.e. The Law of Increasing Marginal Capitalist Innovation).

By taking the third option, the food sector can make a reality of the concept that poverty alleviation builds shareholder value, Craig Cohon and Jeb Brugmann concluded. To implement this project, companies need to align their own top-of-mind priorities – customer loyalty, food safety and internationalisation – with those of informal food operators – loyalty, finance and supply management – and of low-income consumers – price, variety, safety and convenience. Such a partnership approach was not about charity or corporate social responsibility but about developing a new financial model to create joint ventures that ensure that equity remains in the local community. They invited companies to provide one of their senior executives for a six-month period to support research and partnerships with entrepreneurs in impoverished areas.

## **Q&A**

Asked how the Globalegacy project could work in a country like India that restricts foreign ownership, Jeb Brugmann said that the idea would be to invest initially in an Indian operator in order to develop business propositions. Craig Cohon added that renting land had been illegal in the former Soviet Union but that Coca-Cola had succeeded in getting the law changed. On the role of the food business, they argued that the sector was closer to consumers and also more willing to take risks than the oil or financial services industries. However, it had not so far invested in the breeding ground of entrepreneurship that represent the slums of the developing world.

# Business Session 3: Leadership at Risk

## Corporate Governance: Who's in Charge?

*José María Garrido García, Secretary of the Board, CNMV, Spain*

If corporate governance is about the distribution of power in a company, good corporate governance is about checks and balances, José María Garrido argued. In the light of recent scandals, the importance of this area has become clear in building confidence and attracting investors. There are two main models of corporate governance: the Anglo-American model of dispersed ownership of the corporation and the Continental Europe one (also used in other parts of the world) based on concentrated ownership of the company. Each approach has its own specific issues, with the Anglo-American model posing the problem of powerful managers in conflict with shareholders, and the Continental one pitching controlling shareholders against minority shareholders.

The 'idealistic' view of the structure of companies puts management in a hierarchy below the board of directors and the general meeting of shareholders. However, in reality, management have the most powerful role, taking the decisions that influence the board, which in turn controls the shareholders meeting. This reality presents the risk of a concentration of power, with founders, CEOs or major shareholders wielding too much influence, depending on the type of corporate governance used. However, the crisis caused by the wave of financial scandals has driven a number of trends in corporate governance:

- *Accounting and auditing.* A revolution is taking place in accounting, with new international standards due to be introduced by 2005. Auditing is undergoing significant change as well, with audit committees becoming compulsory in many countries. These committees need greater expertise and independence, however, if they are to function well.
- *General Meeting of Shareholders.* New technology is offering the means to reinforce the role of shareholder assemblies. Moves include efforts to make websites compulsory for companies and the spread of proxy and e-votes.
- *Transparency.* Divergent standards covering financial disclosure have made it difficult to compare the information published by different companies. But beyond more comparable financial data, transparent corporate governance depends on companies giving specific corporate governance information explaining who takes decisions.
- *The board of directors.* The power of CEOs has become a major issue in the corporate world. One response has been to divide responsibilities between the CEO and chairman of the board but a more important shift has been the development of board committees covering auditing, remuneration and appointments.

These various changes affecting corporate governance have driven convergence between the different systems. One view holds that 'formal convergence' will occur, in a 'one size fits all' scenario, but the more likely outcome is 'functional convergence', in which different models continue but with comparable results. Bringing about reform is crucial in order to break the current vicious circle in which companies go just one step further than forced to by the regulator, stock markets do not have confidence in corporate governance and investors do not trust companies. But the answers, José María Garrido insisted, lie neither in just more information, which encourages defensive disclosure by companies, or more laws, since simplification is often the best solution. The debate on social responsibility and profits has been distorted by recent financial scandals but will continue, he concluded.

## **Q&A**

Asked if the International Accounting Standards (IAS) and US GAAP would really converge, he argued that the situation had changed dramatically since 1999, when US GAAP was talked of as the world standard. Today, the dialogue between IAS and US GAAP was leading perhaps not towards one set of rules but a series of comparable rules. On the challenge of attracting qualified independent directors given the heavy responsibility and low remuneration, he noted that this was a problem especially for audit committees, since they required experience in public company accounts. But general non-executive directors were not hard to find, as they needed common sense above all else. He also reminded delegates that companies in the EU would have to apply new accounting standards by 2004, a major change that would require accountants to go back and study!

## **Why Private Equity Players believe in the Retail Sector**

*Maurice Tchenio, Co-Founder Apax Partners & President, Apax Partners SA*

To achieve its goal of generating superior returns by helping visionary entrepreneurs build world-class companies, Apax chose to adopt a different strategy to other equity firms, Maurice Tchenio explained. Rather than focus on buy-outs or early-stage venture capital, it specialised in six sectors: IT, telecoms, media, retail & consumer goods, healthcare & biotechnology, and business & financial services. Many equity players do not in fact invest in retail because the sector is:

- Execution-driven ('retail is detail'), with variable locations
- Decentralised in stores, making skilled local managers essential
- Cyclical (non-food)
- Volatile – demand changes rapidly

Apax, in contrast, saw retail and consumer goods as an attractive investment offering:

- One of the largest sectors in developed countries
- Segmentation: a wide range of channels (large/small stores, upscale/mass merchandise etc.)
- Opportunities created by changing demographics and consumer demand
- Attractive economics: example of French non-food discount chain GiFi, which has developed 200 outlets using a successful out-of-town box-store concept.

Maurice Tchenio then presented three case studies of retail companies in which Apax has invested, illustrating different opportunities for growth:

### Sephora and innovation

Apax invested in French perfume chain Sephora in 1991 when it was a 10-store operator known as Shop 8. Six years later, the firm sold the retailer on to LVMH as the market leader in France. Sephora's innovation came firstly in breaking down distribution barriers, persuading the brand manufacturers to support a chain concept. It then developed a distinct customer experience, based on the beauty of the stores and the ability to test products.

### Aigle and building a world brand

When Apax took on Aigle in 1994, the company was a 140-year-old manufacturer of rubber boots for the French market. Apax decided to support its management in their vision to transform the business into an outdoor apparel and footwear brand. Today, these categories account for 80% of total sales, compared with 32% in 1994. It has also developed a major international presence, becoming market leader in Japan (supported by a network of stores) and securing a distribution deal with department store chain Dillard's in the US.

### Tourpagel and changing the business model

This frozen food retailer brought the basic 19<sup>th</sup> century model of selling goods out of trucks in rural areas into the 21<sup>st</sup> century by introducing call centres and automated warehouses. The success of its model allowed it to acquire larger rival Agrigel. It is now also using its base of 1.2 million customers to expand from its frozen food niche into the much larger grocery market.

Equity players have to be professional sceptics, he concluded, but they also have to believe sometimes in strong entrepreneurs and leaders. With equity firms holding US\$1,500 billion today, they are looking at all sectors for visionary entrepreneurs to challenge the market leaders.

### **Q&A**

Asked how important it was to have a global network of offices, he stressed that equity firms needed to have a local presence to be able to benchmark between different countries and avoid making mistakes, for example concerning regulations. On the question of the power of venture capitalist firms in today's market, he noted that while entrepreneurs enjoyed the advantages of the stock market bubble, venture capitalists were naturally favoured in the current downturn. However, a reputation for fairness was crucial for the long-term growth of an equity firm, otherwise entrepreneurs will not trust it.

## **Are Families Good for Business?**

*Dr. h.c. A. Oetker, Dr. August Oetker K.G.*

Dr. August Oetker set out the key principles and strategic choices of the Oetker Group, a 112-year-old family business that has grown into a diversified international company, whose interests cover food, shipping and hotels. He defined a family business as one in which the capital is in the hands of the owner family and over which the owner family has a shaping influence. At the same time, the role of the Oetker Group's Advisory Board – with a majority of members from outside the family – in deciding management appointments helped ensure that the company's interests prevailed over family ones, he explained. Overall, family ownership gave the group the independence to pursue a consistent approach without pressures from stock markets and analysts. This was particularly important given that the markets tend to view diversified companies less favourably. The Oetker Group has thus escaped such sanctions and increased its sales to over 5 billion euros in 2002, supported by its partnership model. This distinctive business structure has also proved successful in creating strong loyalty, not only among family members but also among management and staff. In financial terms, the personal unlimited liability assumed by August Oetker for the group further created confidence among banks and so reinforced its financial position.

The cornerstone of the Oetker group is its food division, Oetker International, which generates sales of over 1 billion euros through brands marketed in Europe, Brazil and Canada. The umbrella Dr Oetker brand, which bears the same logo in every country, has become a trust mark for consumers, a fact illustrated by a Reader's Digest survey in Europe which rated Dr Oetker as the Most Trusted Brand for the food category in Germany. The basis of this brand's strategy in its different markets is to reach a leadership position within five years. Moreover, it sets itself the goal of being 1.5 times bigger than the number two brand. This growth is supported by the three core commitments of innovation, quality leadership and price leadership. Dr Oetker does not enter contests for the cheapest price, he stressed, but supplies the product that is worth its price. The company's 15-year involvement in category management has reinforced its brand management, while its decision not to produce private-label lines has also helped maintained a clear positioning.

Looking ahead, the group is confident in its ability to compete with larger competitors, since what counts, August Oetker insisted, is not size but leadership in specific categories. There are many

examples of big companies pulling out of markets under pressure from smaller rivals who established themselves as category leaders. Beyond the determination to protect the reputation of the brand, the commitment to the good name of the family remained a powerful motivation, he said.

## **Q&A**

Concerning his unlimited personal liability, he said that he was not worried by it since he knew his business. This position also encouraged him to take fewer risks, he noted. On the subject of dividends, he explained that family members now receive dividends (unlike previously), according to an absolute figure which was equivalent to well below 20% of profits. This may change to a fixed percentage in due course, he added.

## **Successful Leadership in a Risky Environment**

*Cesáreo Fernández, Chairman of the Board, Wal-Mart de Mexico*

Mexico offers great contrasts and opportunities, Cesáreo Fernández explained. Out of a population of 100 million, half were under 21 years of age and a majority live on low incomes. In this context, the formal retail sector, comprising 100 chains, claims only just over a quarter of total retail sales of US\$120.467 billion, the rest of which is claimed by traditional channels (indoor/street markets, small stores and contraband) and government outlets. In terms of the economy, GDP has see-sawed over recent years, slowing to virtually zero growth since 2001. Inflation, however, has been brought under control since the mid-1990s, a trend that has helped Wal-Mart de Mexico (Walmex) establish its Every Day Low Price policy.

Walmex's has grown to become the largest chain in the country, with 605 units in 58 cities generating US\$10.193 billion in 2002. It is Mexico's largest employer with 95,000 staff and is also the second-largest company listed on the Mexican stock exchange. The key to the retailer's expansion since Wal-Mart first acquired a stake in 1991 has been a multi-format approach that covers all consumer needs. Walmex operates six formats, including Sam's Club warehouse stores, Bodega Aurrera limited assortment stores in low-income areas, Wal-Mart Supercenters with the widest product range, Superama supermarkets in residential areas, Suburbia department stores and Vips cafeterias. This retail network is supported by 10 distribution centres, whose joint capacity of 510,000m<sup>2</sup> is to be increased to 850,000m<sup>2</sup> by next year.

Cesáreo Fernández explained the key elements of the strategy behind this strong growth:

- *Vision:* Walmex's basic aim is to contribute towards improving the quality of life for Mexican families.
- *Every Day Low Prices:* this is not an advertising campaign but a more efficient way of doing business. Walmex rolled out the policy three years ago, centralising purchases, cutting costs and lowering price by 12-13%. The policy drives a productivity loop in which cost reductions lead to lower prices, more customers and increased sales.
- *Growth:* since 1997, the retailer has invested US\$1.776 billion in opening 217 units, creating 37,000 jobs. But although Walmex is now present in 58 cities, its focus remains on the 190 cities where it does not yet operate.
- *Leadership and Culture:* the company's culture is based on four core values – respect for the individual, customer service, the strive for excellence and integrity always – that cover all stakeholders. Shareholders retain confidence because Walmex applies best practices in corporate governance – including an audit committee composed of three independent members. Employees benefit from investment in personal development, which drives a people-

based productivity loop, while suppliers benefit from lower costs and growth. Walmex also contributes to the community by supporting social projects and by creating permanent jobs.

All these aspects are linked in an overall effort towards greater efficiency, he stressed. But such performance is not enough, since the basics of the company culture must be preserved, he concluded.

### **Q&A**

On the question of private label, he said that sales now accounted for 10% of the total, including apparel. Asked about the link between inflation and EDLP, he explained that previously high inflation levels meant that consumers did not notice price differences as much. After inflation had been brought under control, Walmex ran a three-month trial of EDLP and then rolled out the programme. Concerning small retailers, he said that small outlets are growing in Mexico, supported by the expansion of Walmex stores.

## **Business Session 4: A Day in the Life of the Contemporary Consumer**

### **Fashion – The most Fragile of Perishables**

*Enric Casi, Managing Director, Mango*

Since opening its first store in Barcelona in 1984, women's fashion chain Mango has grown into a major international retailer operating in over 70 countries. Its mission statement gives the aim of being present in every city in the world, without losing its core values of humility, harmony and affection. This statement sounds idealistic but it is supported by a pragmatic approach of daily improvement, Enric Casi stressed. The stress on humility has become increasingly important, since the speed of fashion, like the food business, is such that companies have to work faster and faster. He outlined three growth keys for Mango:

1. **People.** Human resources are central to the company's growth, which has been driven by people who want to get ahead. In general, 80% of problems in a company are human resources-related rather than technical, so this has to be the major focus.
2. **Focused brand.** Mango has positioned itself as a medium to high-quality brand for women who want to be fashionable. Its products are supported by an attractive and convenient store environment that allows the time-pressed urban shopper to pick up an entire collection as simply as possible.
3. **Technology.** The company is committed to doing its own research & development for its products. Brainstorming sessions generate 'to-do lists' for the IT teams to improve speed and capacity. This investment is vital to create value beyond price.

In its first development period during 1984-1995, Mango adopted a progressive approach – opening only 100 stores – in order to give itself the time to establish its philosophy. Difficult market conditions in Spain – the proliferation of clothing brands made competition intense – led the retailer to develop a distinctive operational strategy, based on 'Just in Time' or JIT supply management. This shift required a major effort in quality control as JIT meant low inventory. Mango also worked to strengthen its key human values and develop its own logistics strategy (Sistema Logístico Mango), centred on speed, information and technology. In its second expansion phase from 1996, the retailer has focused on building its international network, as well as reinforcing its technology and logistics operations. Its international growth has notably seen it develop larger 1,500-2,500m<sup>2</sup> stores.

So what are the prospects for Mango today? In a context of strong competition, social tensions and the threat of deflation, the company is focused on improving its technology in both the supply chain and stores in order to be even faster in its operations. A central distribution platform in Barcelona has already removed a number of supply steps and real-time information is set to bring about more dramatic changes. New technology offered phenomenal opportunities, Enric Casi argued, and had not even realised 1% of its potential so far.

## **Serving Coffee with Soul**

*Howard Schultz, Chairman & Chief Strategist, Starbucks Coffee Company*

Building a sustainable brand is more difficult than ever, Howard Schultz argued, because the rules have changed. The average consumer in Europe and the US receives 3,000 marketing messages a day, while trust in business and public institutions is at an all-time low. It is thus not a good time to be a marketer but it is a great time to demonstrate that you are a company that creates long-term value, a company with a conscience. The example of a small cheese store in the centre of London, which has survived for a century amid high rents and strong competition because of its customer service and product knowledge, proves the point that the equity of a brand is not about marketing but the rare emotional connection between the buyer and the product.

The starting point for the Starbucks story, he explained, was a trip to Italy in 1983 and the discovery of traditional coffee bars offering an extension of the home. This inspired Starbucks to create a third place between work and home in the US. Schultz was also motivated by the memory of his working-class father, who had become bitter with the system because of low pay and lack of self-esteem. He thus set himself the goal of being part of a company that valued people. Starbucks' decision in the late 1980s to become the first company in the US to offer stock options and healthcare to all staff reflected this vision. This approach is particularly distinctive in the US retail sector, which suffers from a 300% staff turnover rate driven by its focus on cutting labour costs. Nevertheless, the chain had to overcome the doubts of investors, who rejected its national expansion plan in 1988, put forward at a time when it was losing money. The lesson for Schultz was that values cannot be measured on a balance sheet.

Starbucks' growth into an international company operating 6,700 stores and valued at more than US\$10 billion on the stock market shows that you can do good and make money. But the values of the company have to go beyond signing a cheque to be part of everything it stands for, he insisted. Consumers today are now performing a 'cultural audit' on companies, based on their values, how they treat their staff, how they make their products and what they give back to the community they are selling to. The strength of Starbucks' values were illustrated in the aftermath of 9/11 when its business increased as people in the US sought a place of connection.

The challenge for Starbucks now is to maintain its values as a large group employing 70,000 staff around the world. To achieve this, human resources has to be treated as the company's most important asset, he stressed, and fuelled with best practices and a budget equivalent to that of brand development and marketing. The traditional hierarchy of shareholder, customer, employee should thus be reversed to reflect this.

### **Q&A**

Concerning international expansion, Howard Schultz argued that most entrepreneurial companies fail to recognise that investment is needed ahead of the growth curve. They were also often reluctant to hire people with more experience, something that Starbucks did to complete its team. He also stressed the importance of partnering with local expertise, especially given the regional specificities of food. On staff recruitment and retention, he said that staff attract like-minded people, creating a 'memory' within

the business. Starbucks quarterly 'open forum' for all staff in each market also proved a source of commitment, he added.

## **Creating Value for Emerging Consumers in Retailing**

*Panel: Gonzalo Restrepo, CEO, Almacenes Éxito S.A., Colombia; Angel Losada, Chairman of the Board & Executive President, Grupo Gigante, Mexico; Antonio Coto Gutiérrez, CEO, Día, Latin America*  
*Moderator: Professor Guillermo D'Andrea, Professor & Chairman, Marketing Department, IAE Universidad Austral, Buenos Aires, Argentina*

The panel discussed the findings of a study by the Coca-Cola Retailing Research Council - Latin America, "Creating Value for Emerging Consumers in Retailing", which was unveiled at the session. **Gonzalo Restrepo** summarised the main findings of the research, based on 60 focus groups and over 200 interviews with small retailers in six Latin American countries. The starting point for the study was the observation that despite the major inroads made by modern retailing in Latin America during the 'roaring 90s', informal channels remained strong. The aim of the research was thus to establish what advantages small operators offered to low-income or emerging consumers and what could be learned from them.

A number of myths regarding emerging consumers have in fact prevented the modern trade from addressing their needs, including:

- *Poor consumers have little money to spend:* they do in fact devote a significant percentage of their income to consumer goods.
- *They always go for lowest price:* emerging consumers mostly prefer brands as they cannot afford not to make the right choice.
- *They are simply 'poor':* they have distinct needs and preferences that go beyond economic statistics.
- *Just a matter of time and money:* there are other barriers to poor consumers shopping at supermarkets, such as access and 'total acquisition costs' (i.e. obligation to buy larger packs and spend more on transport).

The success of small retailers cannot be explained simply by tax evasion or cheap prices. They deliver value and treat consumers with respect through their retail offer, which is based on:

- Convenient locations
- Clean, no-frills stores
- Compelling value
- Social space
- A strong business model, supported by motivated family staff
- Low operating costs and lower fiscal charges
- Low inventory and shrinkage

**Angel Losada** described further the perceptions and preferences of emerging consumers. The total acquisition costs of a shopping trip are particularly important for such consumers, who are prepared to pay a higher basic product price in a local store rather than incur higher overall costs in a supermarket, where they are forced to buy bulk and pay for transport. Small stores also have an advantage over supermarkets in offering credit to poor customers, which gives them a 'virtual wallet' and spares them the embarrassment of not having enough to pay at the checkout. Traditional outlets also provide important emotional proximity through the personal service they provide and enjoy a better quality image than large stores in fresh food.

**Antonio Coto** considered why small retailers are alive and well in Latin America. For example, in Sao Paulo, one of the continent's largest cities, traditional operators increased their market share by 3.4% over the last two years. While such stores look like a mess to modern chains, they are in fact masters of the micro market. Small traders optimise the mix of categories, brands and pack sizes, offering a sliding scale of prices according to freshness and inventory. They have also established a loyalty system based on credit. Operationally, the low productivity of small retailers compared to modern chains is countered by low labour costs and shrinkage and inventory management that is much better than that of the big players. In other words, they have developed a very good business proposition, one which claims as much as 70% of the market in some Latin American countries.

In conclusion, **Guillermo D'Andrea** said that there was a danger of thinking that Latin America was just like the US or Europe 40 years ago and would eventually change. Despite a decade of heavy investment by modern retailers, emerging consumers are looking for local, personal solutions and the modern chains will have to work more on addressing these needs.

## The Creative Kitchen

*Ferran Adrià, top Spanish chef, elBulli, Spain*  
*Xavier Argenté, CEO, Caprabo, Spain*

Put simply, creativity is not copying, argued **Ferran Adrià**. This definition underlies the experimentation of elBulli, a restaurant that could just as well be called a research centre. It has only 50 seats but provides 60 staff, giving it the highest staff-customer ratio of any major restaurant. It seeks to develop creativity in two ways:

1. 'conceptual': elBulli tries to generate new concepts or techniques that can have as great an impact as the omelette, for example, which is based on the simple, un-patented idea of cracking eggs and cooking them in a pan. Adrià's creation of a savoury sorbet – inspired by his diabetic mother – could have a similar impact if taken on by manufacturers.
2. 'entrepreneurial': elBulli is a great business success with its 8,300 annual covers reserved within an hour. But beyond its dining customers, the restaurant reaches a huge audience through wide media coverage (10,000 articles per year that are worth the equivalent of US\$50 million in advertising).

Gastronomy is a special business, since it generates opinions from everyone – whether pleasure-seekers, intellectuals or genuine gourmets – but is very complicated to actually do. elBulli allows the diner to appreciate the full gastronomic experience both in terms of physical sensations – smell, temperature, texture and flavour – and mental response, as the brain seeks harmony according to the person's particular tastes. The customer can thus break from the 'scoffing' that usually goes with eating.

But what is the relevance of gastronomic restaurants to the wider public and the food companies that serve them? The elitism of gastronomy has been challenged by top chefs who have influenced home cooking, he insisted. Again, the media interest generated by elBulli has provided an important impetus, attracting foreign interest in Spanish products. For time-pressed households with a limited budget, chefs are now providing realistic cooking suggestions using pre-prepared products, unlike previously when they told consumers to try complicated dishes that could never be done at home. The influence of an entrepreneurial generation of world-class chefs would be enormous, he argued. Supermarkets should use them to help people eat better and even put them on their board, he suggested. The merits of pre-prepared foods also extends to fast food, given that they offer genuine good value compared to more expensive, better quality versions. However, fast food chains lose their credibility if they do not respect the food culture of countries, he warned, an example being McDonald's launch in France of gazpacho soup (an Andalusian speciality) under the name 'Cataluna'.

**Xavier Argenté** explained how Caprabo had worked with Ferran Adrià as part of its strategy to provide a differentiated, local offer for customers. The Spanish supermarket group operates for the most part neighbourhood stores of 700-2,500m<sup>2</sup> that are focused primarily on quality, private label and fresh food. Its positioning is based above all on the idea that price and location are musts but not enough to provide the emotion that is a vital part of the shopping experience. A purely price focus thus treats customers like rational calculators and ignores their emotions, he argued.

Caprabo's products and services are all developed around this goal of providing local taste. Customer relationships are built up through a large loyalty programme – accounting for 80% of sales – that has enabled the retailer to introduce personalised promotional leaflets. Loyalty is also encouraged through a baby club that offers gifts for new parents. Caprabo's emphasis on fresh has been supported by TV advertising that communicates general quality rather than particular prices. The company's partnership with Ferran Adrià has reinforced this positioning, inspiring special products (e.g. private-label gazpacho) and a cookery book that was launched on St George's Day, when Spaniards traditionally give books as a gift. By creating these emotional links with shoppers, Xavier Argenté concluded, Caprabo benefited from customer loyalty and profitability.

## **Business session 5: Achieving Sustainable Success**

### **Real Life, Real Responsibilities**

*Sean Summers, CEO, Pick 'n Pay Retailers, South Africa*

Pick 'n Pay does not have a magic solution for retailing, Sean Summers said, but its experience in South Africa does show how one company deals with the complexity and diversity of its customers. There is no better place than South Africa to witness the evolution of a new country, as reflected in the array of communities represented in the national parliament. The general mood of disillusionment in the world today represented an exciting challenge, he argued, since the world has become a more connected place in which the rich cannot ignore the less fortunate.

So how does Pick 'n Pay work in practice? To take account of the demographic contrasts of South Africa, the retailer has developed a multi-format strategy that spans upscale supermarkets in affluent areas to rural stores serving subsistence farmers. In other words, the company needs a profound understanding of the population if it is to serve them as customers. Moreover, because of the effects of history in South Africa, groups like Pick 'n Pay have been called on to play a disproportionately large role in society compared to other countries. This is reflected in the 8% of profits that Pick 'n Pay spends on education, development and community projects. So while a lot of other companies talk in similar terms in their annual reports, South African history has forced Pick 'n Pay to invest in building a sustainable business. But this should apply to all retail companies since retailing is a social business built up over a long period of time, he stressed.

The core belief of Pick 'n Pay, Sean Summers concluded, is that people before profit is what it is all about. If you do this, he insisted, the business will take care of itself. In this people values system, staff come first since they serve the customers. This priority is shown in the company's decision to send 1,500 employees to attend the Disney Institute in Florida, despite complicated visa procedures after 9/11. In total, 5,000 staff are on officially accredited training programmes. Ultimately, this commitment to people will get us out of scepticism towards a new connected world, he said.

## **Human Rights and Human Lives**

*Irene Kahn, Secretary General, Amnesty International*

Nothing challenges sceptics as much as faith, Irene Kahn stressed, and Amnesty International (AI) is all about faith in the idea that we can build a more just world through respect for human rights. From its beginnings in 1961 as a protest against the imprisonment of two students in Portugal, AI has grown into a global movement with 1.7 million members in over 140 countries. It has supported the development of an international human rights system, including the creation of an International Criminal Court in 2002. But its biggest success remains its local presence, which ensures its long-term future.

So what are the major threats to human rights today? Security has become a major challenge to human rights in the climate of fear that has prevailed since September 11. The terrorist attacks against the US were crimes against humanity but the response of many states has been to impose policies that have infringed on human rights while having a varied impact on security. The example given by the US has been particularly significant since its 'war on terror' has been used as a pretext by repressive regimes to abuse human rights in the name of national security. And yet despite the billions spent fighting terrorism, people around the world feel more insecure now than at any time since the Cold War, she argued.

The other main challenge to human rights is socio-economic. It is often said that socio-economic rights and civil or political rights are different but there is no distinction made in many national constitutions or in the minds of many citizens. The Universal Declaration of Human Rights of 1948 includes food, housing and medical care. The situation today is that 800 million people are chronically hungry, 1 million more than last year. The importance of socio-economic issues is illustrated in the abuses suffered by women in many countries and AI is to address this problem by launching a campaign on violence against women in 2004.

Human rights are relevant to business, she said, because it needs security and stability. Companies can exercise power and influence in this area because they work with large numbers of people all around the world. They are generally much more sensitive today about human rights in view of the risks of litigation and damage to their image among ethically motivated consumers. However, business still needs to be pushed to act in many cases by public exposure, as in the case of the diamond trade in Africa. In the food sector, public confidence has been adversely affected by issues such as BSE, GM crops, the use of chemicals and the impact of large stores on local shops. Widespread public distrust of business as a whole is illustrated by a recent survey from the World Economic Forum rating global and large national companies as the least trusted institutions, except for national parliaments.

To respond to this age of scepticism, companies need to adopt a proactive commitment to human rights as an integral part of their activities with all stakeholders. The partnership between the UN and salt manufacturers to include iodine in all salt made for human consumption – thereby protecting babies against the iodine deficiency – offers an example of how companies can make a massive difference with small investments. The food industry should measure its success by what it does to contribute to improving food security for the 800 million people who are chronically hungry.

## **Keynote Closing Address: Achieving Sustainable Success**

*Sir Bob Geldof, Musician and Founder of Live Aid*

By reversing the Summit theme to consider "Scepticism in an Age of Success", Bob Geldof suggested, we can see how western society became successful, how that success engendered scepticism and finally

how that same success can only be sustained by ridding ourselves of scepticism. For the West was triumphant in the 20<sup>th</sup> century, racing ahead of the rest of the world through communication and productivity. This economic development gave rise to the middle class that supported the emergence of democracy. In contrast, Africa has little infrastructure or production and therefore no viable middle class and no political stability. This gap has been reinforced by AIDS , trade barriers and debt, a madness involving African countries paying money that they do not have to countries that do not need it.

But the success of the West has bred corrosive cynicism, he argued, as secularism and subsequent consumerism have left a hole that 'stuff' cannot fill. We live in disconnect from our world and no longer believe what our leaders say. In other words, irony, cynicism, scepticism have become the leitmotif of the most wealthy, healthy, educated, successful society of all time.

So what is the record of the food industry in this context of scepticism? The sector has eliminated the insecurity associated with subsistence and shortages. But it has at the same time encouraged scepticism through its impact on the environment, markets, producers. It has also turned a need into a brand that makes you feel better, which is a lie since food is just food. Brands reflect companies' attempt to act like gods. But as in Greek legend, this act of Hubris – violating the balance between nature and society – will be followed by its Nemesis – an act of divine vengeance that restores equilibrium. This is particularly true in an interconnected world that leaves no place for companies to hide.

To move beyond this scepticism in order to achieve sustainable success, Bob Geldof offered five tests for the food business:

1. *Is your business responsive to the consumer, accountable and ethical?* The sector has performed well in this respect, responding to concerns over GM foods and developing fair trade sourcing in Africa.
2. *Is your business dominant?* The food retail sector has caused large numbers of small stores to close (e.g. 100,000 in the UK since the 1940s), depriving consumers of a basic local service they value. In contrast to local shops, chains take money out of the community for their headquarters and shareholders. Consolidation has also reduced competition and allowed supermarkets to raise the price of food.
3. *Are your brands bullies?* Brands are subject to greater scrutiny but they have similarly driven out local competition. They have also used name changes to conceal poor ethical behaviour. Like supermarkets, they often serve shareholders instead of society and so risk Nemesis like Enron.
4. *Do you grab too much of taxpayers subsidies?* The food sector is under attack for its dependence on subsidies, which it protects by using enormous lobbying power. The sector's commitment to free trade and simultaneous dependence on subsidies is deeply hypocritical.
5. *Water.* While food is essential, lack of water kills first and access to water is threatened by companies siphoning off supply. The food business needs to recognise the consequences of such behaviour in terms of civil and international conflict that is bad for business.

Bob Geldof concluded by inviting the food business to engage with governments around the world by choosing a handful of people to represent its views. Such an 'interface' would be a healthy exercise in democracy, advising on legislation and developing contacts with interest groups and consumers. In this way, the food sector can help defeat despair and cynicism. The alternative is Nemesis, he said, because if people no longer believe in your products, your business will die.

## **Closing remarks from the CIES Chairman**

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

Summing up the programme, Pierre-Olivier Beckers stressed the provocative final session that reflected the powerful central theme of “Success in an Age of Scepticism”. He noted the range of viewpoints expressed, including Jeremy Rifkin’s criticism of GM food manufacturers, which showed that there were opponents of the technology in the US. Reacting to José Garrido’s presentation on corporate governance, he called on regulators to recognise that financial scandals are caused by crooked management. Overregulation would thus be a disaster for the 99% of companies that are fair and honest. Overall, the emphasis on people and responsible development during the Summit showed that success is linked not only to a sense of humanity but also to humility, he said.

Pierre-Olivier Beckers also announced the nomination of Claude Hauser, Chairman of Migros, as his successor as CIES Chairman for a two-year term starting at the 2004 Summit in Rome. He stressed the importance of Migros as both the market leader in Switzerland and a cooperative group with strong local roots. Finally, he invited all delegates to join CIES in Rome, a symbolic choice as the city hosted the very first CIES Congress in 1956.

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*Mark your diary !*

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

CIES – The Food Business Forum  
summit@ciesnet.com  
Tel. +33 1 44 69 84 84