



# Jointly Agreed Growth

**ECR** *Europe*  
Efficient Consumer Response

## The Importance of Being Innovative

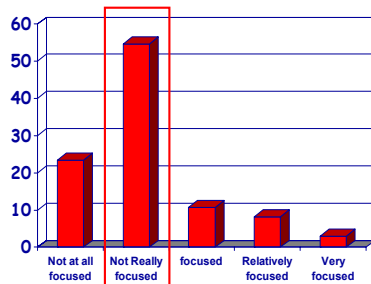
Driving demand and generating growth requires the European grocery industry to innovate.

Innovation is about change: not only change in the range of products and services, but also change in our ways of working together (business process).

Whilst price is essential, commoditisation is not going to drive future growth.

### We have recognised the challenges

How focused on the consumer & shopper, on driving demand and generating growth, is the current negotiation model in Europe ?

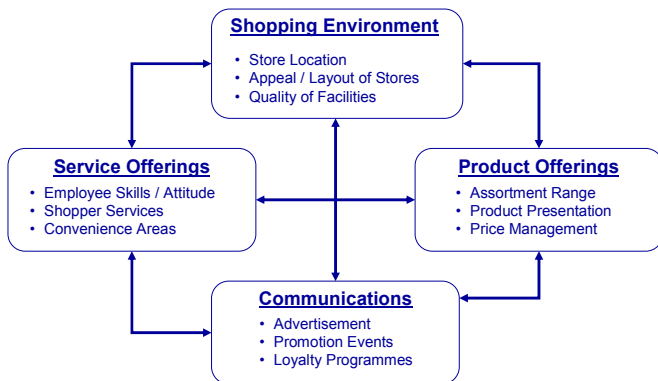


ECR Europe Conference, 350 Companies Surveyed during the Joint Value Creation Beyond Price session

We recognise that it is easier and less risky to focus on price discussion and negotiation. We agree it is harder, but ultimately more rewarding in the long run, to look at:

- defining together what the shopper/ consumer will positively react to,
- managing the process of bringing innovation on to the market collaboratively.

### Consumer and Shopper Value Definitions : The Levers of Growth & Innovation



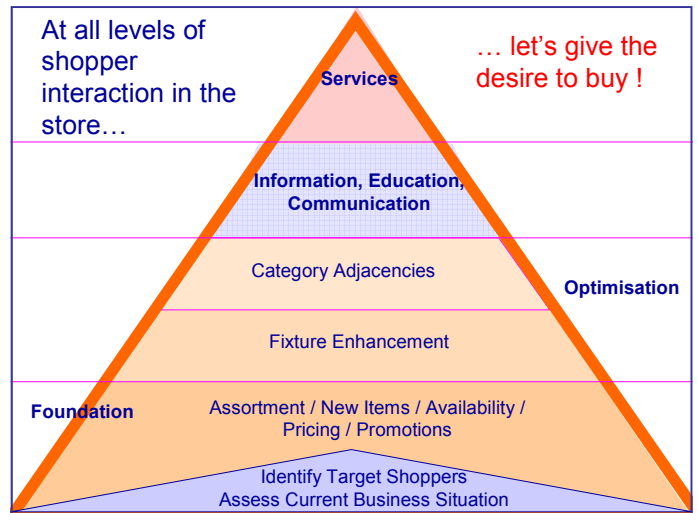
ECR Europe, Consumer Value Measurement, 1999

Innovation is a lifeline, especially in a developed economy whose dynamics are based as much on desire as on needs.

Innovation is as much about creating new services, changing the in-store environment, communicating in new ways to shoppers and consumers as it is about introducing new products.

Sometimes a re-organisation of the store or display generates more growth than the introduction of a new product as it better stimulates shoppers' cross-category purchasing.

The most innovative product may fail to sell because its presentation in store does not reflect the innovation of the product, nor the promises of its communication.

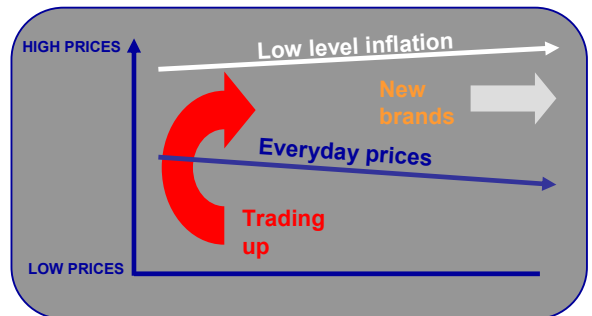


Being innovative in selling the current assortment by giving the desire to purchase across the whole retail range is also essential to a growth strategy:

- New product introductions are perceived by the shopper in the context of the whole shopping experience.
- The motivations for shoppers' purchases are as diverse as the nature of shoppers: some seek the excitement of innovation, others the reassurance and comfort of an existing range.

DAVINCI study

Price / substitution dynamics work well when consumers are keen to buy new products but won't work if they don't readily switch.



IFPI ECR Europe Conference, Milano 2007

- 20% of manufacturers' turnover comes on average from innovation (new products, excluding promotion, introduced in the previous 12 months)
- 90% of retailers' yearly sales are from the current range (excluding promotion).

## Jointly Agreed Growth

ECR Europe has drafted a user guide for commercial teams, the Jointly Agreed Growth Process (JAG).

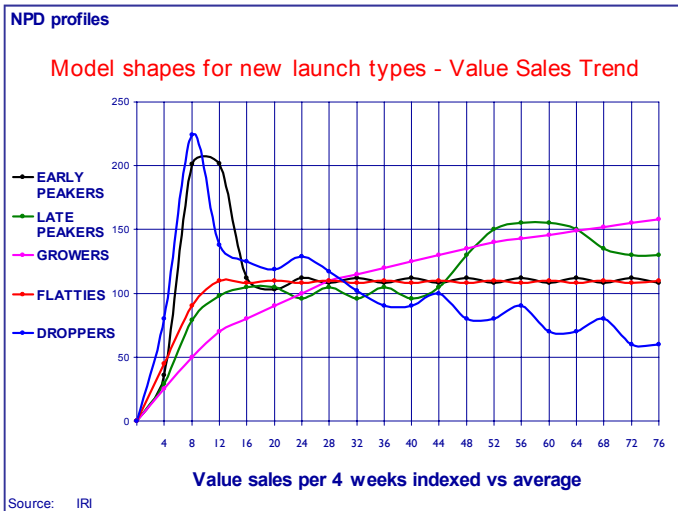
It recommends a 3-year business plan with an annual review.

Time allows to build business continuity, facilitating the management of commercial conflicts, avoiding disruption and related inefficiencies.

Time allows the necessary investments in creation and development in store, format or product.

The imperatives of sustainability further require a long term perspective in the business relationship as well as in the approach to innovation.

Time also allows to define if new products effectively generated incremental sales or were just a temporary success, whose effect was similar to a promotion.



Some innovations may take longer to gain shopper penetration but may bring more lasting revenues.

Only the demonstration of repeated purchases and incremental sales to the existing range and overall basket-size can define the true measure of success for new products.

### Step 1

For shoppers to see in stores products they actually want to buy, the initial discussion between buyers and sellers should define the context for growth:

- consumer and shopper needs,
- socio-economic trends,
- the trading environment.

### Step 2

Agreeing opportunities for collaboration by reviewing the right strategy for mutual growth.

**The “JAG” (Jointly Agreed Growth) Process**

The Category Role/Strategies (7 steps process ECR 1997)

TRAFFIC BUILDING	IMAGE ENHANCING	CASH GENERATING	PROFIT GENERATING
CREATING EXCITEMENT	TRANSACTION BUILDING	DEFENDING TURF	

Applying the necessary marketing resources and ECR practices to support the growth initiative:

- ✓ New product introduction (8 steps process ECR 1999)
- ✓ Promotion (8 steps process - ECR 1999)
- ✓ Fixturation (new shelf, displays...)
- ✓ In-store activities
- ✓ Media/advertising...

Each category has a different role and different growth drivers. Some build on the dynamics of the existing range, others require more new product introductions.

### Step 3

Setting the size of the prize: key commercial and shopper measures (sales, turnover, margin, loyalty, penetration, ...).

### Step 4

Agreeing a business plan which covers all the growth initiatives.

- Range/assortment
- Marketing (including merchandising)
- Availability/supply
- Price, profit, productivity

### Step 5

Analysing outcome through a balanced set of KPIs: financial, marketing and operational measures.

Financial KPI	Operational KPI	Consumer/Shopper KPI
Incremental sales €	On-shelf availability in %	Trial & penetration
Incremental profit €	Speed to shelf in days (% ACV by x days)	% of target shoppers attracted to stores
Incremental gross margin in % of sales	Inventory turn (rotation index)	Satisfaction
Productivity: *sales per store/ per sq meter *sales per point of distribution	Quality of execution: *compliance of planogram point of sales visibility *compliance with marketing support	Repeat purchase Loyalty
GRP (ROI of Marketing)		Basket Size evolution
Market share		Image enhancement (retail/brand, in different shopper segments)
<b>People</b> Engagement / Respect of each other's timelines / Resource alignment		

### In Summary

Growing the grocery market, in a sustainable and profitable way for all, by better satisfying shopper and consumer needs is the imperative.

Moving to a common goal, along a shared business process, is the best way to improve both efficiencies and effectiveness.

**Jointly Agreed Growth Process - the “JAG”**

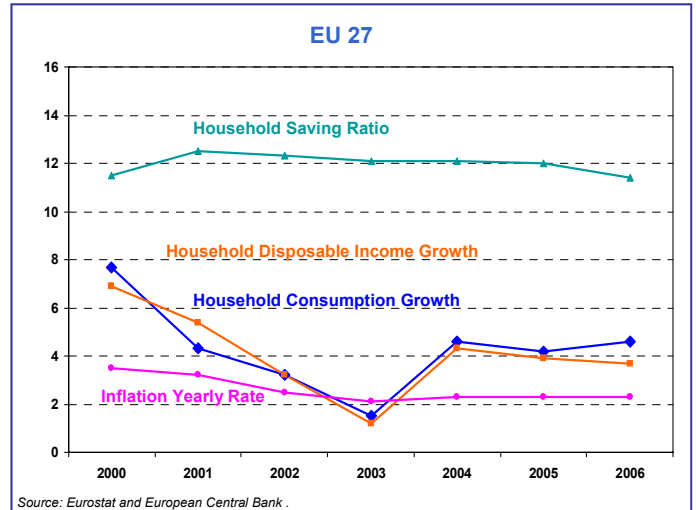
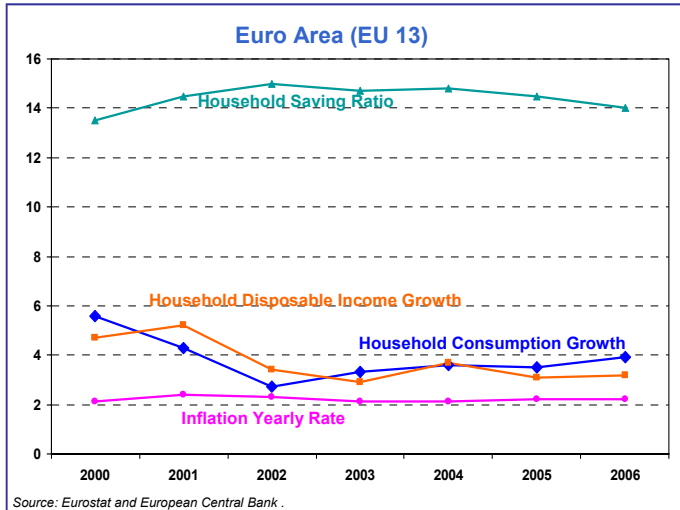
Trade Barriers	Jointly Agreed Growth
Lack of strategic alignment	A Jointly Agreed Growth strategy
Lack of long term visibility	A three-year framework plan
Buyer-seller 11th hour agreements impeding marketing plans	Joint Business Planning starting with category strategy and role of innovation
Fear of own-label match impending new product introduction	An agreed category strategy and set of principles
Slow distribution of new products / General availability issues	Long term integrated process avoiding supply disruption
Lack of KPIs to measure effective returns	A set of agreed pre-defined growth criteria, balancing financial, marketing and operational KPIs

## Household Consumption in Europe – A 10-Year Overview

Household Consumption in the 27 European Union member states (EU 27) reached in 2006 over 6.6 trillion Euro, an annual 4% value growth (2.1% volume) and a 2.7 trillion Euro growth over the last 10 years.

In the 10 years 1995-2005, with an inflation rate of 2.2% a year in the 27 European Union member states (1.9% for Euro zone), the value of yearly consumption per inhabitant grew annually by 4.3%:

- EU 27: from 8,300 Euro to 12,700 Euro a year
- Euro zone: from 10,300 Euro to 14,400 Euro a year.



The improvement in living conditions translates into a gradual increase of spending in durable products (*home, car ...*), entertainment (recreation, restaurant) and well being (personal care). This trend is reflected in the increase of non food in grocery sales, at a rate twice the level of food categories.

While the share of food is getting lower, which is a natural evolution in developed economies, eating and drinking - at home or in restaurants and pubs - remains the main area of spending (1,362 billion Euro in 2005), slightly ahead of housing and the use of natural resources (water, electricity, ...). The largest price increases take place in sectors mainly under state control.

EU 27					
	2005 in Billion Euro	Growth 2005/1995	Price Indices 2005/1995	% Share of Consumption 2005	% Share of Consumption 1995
<b>Household Consumption</b>	<b>6.263,7</b>	<b>58%</b>	<b>125</b>	<b>100%</b>	<b>100%</b>
<b>cp01 Food and non-alcoholic beverages</b>	<b>802,0</b>	<b>39%</b>	<b>121</b>	<b>13%</b>	<b>15%</b>
cp011 Food	729	39%	122	12%	13%
cp012 Non-alcoholic beverages	73	42%	109	1%	1%
<b>cp02 Alcoholic beverages, tobacco and narcotics</b>	<b>223,2</b>	<b>51%</b>	<b>147</b>	<b>4%</b>	<b>4%</b>
cp021 Alcoholic beverages	99	40%	116	2%	2%
<b>cp03 Clothing and footwear</b>	<b>363,4</b>	<b>35%</b>	<b>108</b>	<b>6%</b>	<b>7%</b>
<b>cp04 Housing, water, electricity, gas and other fuels</b>	<b>1.360,8</b>	<b>66%</b>	<b>141</b>	<b>22%</b>	<b>21%</b>
cp041 Actual rentals for housing	259	44%	132	4%	5%
cp042 Imputed rentals for housing (purchase of house)	697	77%	144	11%	10%
cp044 Water supply and miscellaneous services relating to the dwelling	99	76%	145	2%	1%
cp045 Electricity, gas and other fuels	238	58%	141	4%	4%
<b>cp05 Furnishings, household equipment and routine maintenance of the house</b>	<b>393,6</b>	<b>40%</b>	<b>116</b>	<b>6%</b>	<b>7%</b>
cp051 Furniture and furnishings, carpets and other floor coverings	144	32%	119	2%	3%
cp055 Tools and equipment (batteries, light bulbs...)	26	51%	107	0,5%	0,4%
cp056 Goods and services for routine household maintenance (soap, detergents, softeners ...)	102	52%	123	2%	2%
<b>cp06 Health</b>	<b>217,4</b>	<b>69%</b>	<b>129</b>	<b>3%</b>	<b>3%</b>
<b>cp07 Transport</b>	<b>846,6</b>	<b>61%</b>	<b>131</b>	<b>13%</b>	<b>12%</b>
cp071 Purchase of vehicles	278	55%	113	4%	4%
cp072 Maintenance of personal transport (fuel, spare parts, ...)	422	62%	154	7%	7%
cp073 Transport services	146	73%	112	2%	2%
<b>cp08 Communications</b>	<b>173,6</b>	<b>128%</b>	<b>80</b>	<b>3%</b>	<b>2%</b>
<b>cp09 Recreation and culture</b>	<b>595,1</b>	<b>66%</b>	<b>104</b>	<b>9%</b>	<b>8,5%</b>
cp091 Audio-visual, photographic and information processing equipment	115	70%	50	2%	2%
cp093 Other recreational items and equipment, gardens and pets (pet foods, games/toys...)	121	75%	104	2%	2%
cp094 Recreational and cultural services	206	74%	135	3%	3%
cp096 Package holidays	35	77%	138	1%	0,5%
<b>cp10 Education</b>	<b>60,6</b>	<b>75%</b>	<b>155</b>	<b>1%</b>	<b>1%</b>
<b>cp11 Restaurants and hotels</b>	<b>560,0</b>	<b>72%</b>	<b>142</b>	<b>9%</b>	<b>8%</b>
cp111 Restaurants and pubs, all catering and drinking facilities	461	69%	139	7%	7%
<b>cp12 Miscellaneous goods and services</b>	<b>667,4</b>	<b>55%</b>	<b>120</b>	<b>11%</b>	<b>11%</b>
cp121 Personal care (razors, shampoo, cosmetics, paper, nappies...)	145	66%	120	2%	2%
cp126 Insurance	148	69%	141	3%	2%

Classification of individual consumption by purpose - (UN COICOP) - Source: OECD & Eurostat <http://epp.eurostat.ec.europa.eu/>

- Household Consumption figures: Eurostat and European Central Bank. <http://epp.eurostat.ec.europa.eu/>, <http://www.ecb.int/stats/acc/>

- The European Household Saving Ratios are 3 times the level of US Household savings <http://www.oecd.org/>

- In 2005 16% of EU population had a household disposable income below 60% of the national median income compared to 17% in 1995 while the population increased by 13.6 millions: 2.5 million persons moved above the poverty level. Household disposable Income increased by an average of 4% a year.

- The smallest GDP per capita also shows the largest share - but lowest value - of consumption dedicated to food (33% in Romania, 600 Euro a year. In Luxembourg, food consumption, excluding restaurant, reaches 2,600 Euro a year but represents a mere 9% share of wallet).