© ECR JOURNAL | VOL. 3, NO. 1 | SPRING 2003

Interview with Franck Riboud, Chairman and CEO of Groupe DANONE and Co-chair of ECR Europe

What do you see as the big challenges facing packaged goods companies globally?

FR: I think it is how to develop profitable top line growth, how to be sure that we are in line with the consumer, and also – and I think this is a little bit new – how to take account of the global environment. That's not only consumers or retailers but also the way we produce, its quality, security – public opinion generally. We always think about brands and consumers. But nowadays, everything you do as a company is a signal for stakeholders.

So to drive a consumer goods company now you have to understand the consumer and you have to pre-empt what the consumer is thinking about in relation to your product categories. You also have to really understand what your competitive advantages are. This is important, because competitive advantage is not the same as it was in the past. Of course, you must have the best product, the best advertising, the best packaging at the best price, which is very classic. But I think increasingly, real competitive advantage lies in the way you think through issues, the way you put these issues on the table, how you solve problems. That means the culture of the company is now central to building your competitive advantage.

This affects everything from how you act with social responsibility, to how you innovate, how often, and so on. So it is the

Creating value – pragmatically

INTERVIEW

by Alan Mitchell and Ludo Van der Heyden
Paris, France

Culture and values are increasingly critical to competitive edge. But ultimately, progress comes from a pragmatic focus on tools that deliver value

way you manage your people that creates the real gap with the competition. It's not so much the individual decisions you make, it is the process you use to reach the right decisions. That means that at the end of the day, culture and the values of your company are very important.

For example, if you are a company where everything is decided by the head of the company you will lose something in the field. Danone is a very decentralised company. We feel that the best decisions are made as close as possible in the field. That is why we recently added "proximity" as one of the core values of the company. We did have three values: enthusiasm, openness and humanity. Then we added this fourth value, of proximity.

Tell us more about proximity.

FR: Proximity is important in everything we do. Our products are part of the daily life of many families. Proximity is the way we work in teams. ECR is basically about proximity with my customer. If you ask me why I became the Co-chairman of ECR it is because of proximity with my competitors. That's not only direct competitors but with consumer goods companies generally. It is good to have proximity with these people: to benchmark, to understand, to feel, to understand how they are working on the subject, what kind of ideas they are developing when they think of consumers or retailers. It is an opportunity to learn.

So what do you see as the big challenges facing your customers: retailers?

FR: I think the main issues are basically the same. We are talking to the same consumer. It is very basic. If we look at the past, as a producer we would try to reach the consumer, let's say by using direct marketing. And retailers would try to do the same because they were trying to capture the same consumer as us. That is one of the reasons we decided ECR is a priority for us. Because if we are talking to the same consumer why do we have to fight? We can put more tools together to achieve the same target. That's all. In fact, as soon as you start sharing with the retailers you are already achieving your target.

Which ECR projects and concepts particularly excite you?

FR: I am not a very conceptual guy. We are in a very, very pragmatic business. If we want to make our margins together we have to sell this amount of product. If we sell more, we will have better margins and better top line growth. It's very basic.

So the answer to your question is projects: concrete, real projects. And for projects you need KPIs to measure and

We feel the best decisions are made as close as possible in the field. That is why we recently added a fourth core value for the company: proximity make sure you are moving in the right direction. Without KPIs, projects quickly become concepts. If you are just talking concepts without KPIs it is just "blah, blah, blah". Projects are linked to the business. And we need measures to measure the efficiency of the new tools developed by these projects.

So which projects excite you in particular?

FR: Out of stocks. If you want to reduce out of stocks you have to touch a lot of business processes. Also, at the end of the day, if you want to really progress on out of stocks you need to work together. Retailers can only do so much alone. Manufacturers can only do so much alone.

I think another priority is how to use the ECR scorecard. Sometimes, it is difficult to understand. The companies sitting around the table need to be able to use it. That's not just one but 20 people, 50 people. We have to help companies use what they find useful from the scorecard because that is the way to start. That, in turn, highlights the importance of a common language between retailers and producers.

Hasn't ECR always been about developing a common language between retailers and manufacturers?

FR: Yes, it has. ECR has been around since 1994 and today we have a lot of tools and best practices. But to be honest, when we look at what is happening on a day-to-day level, there are still many opportunities to progress in terms of implementing collaborative working practices.

If you want to be efficient but are not speaking the same language you will not be efficient. And if you want to have the same language you have to put people together. Otherwise they will continue to say "I am a retailer", "I am a producer". So, in addition to technical projects to develop tools and best practice, we need to find ways to progress day-to-day collaborative practice between manufacturers and retailers, whether they are big or small.

One idea is to develop a sort of training school which brings frontline managers from retailers and suppliers – frontline managers, not people like Terry and me [Terry Leahy, CEO of Tesco and Co-chair of ECR Europe] – together so that they are talking together, every day, in the field. We need to help these people merge their cultures: the way they talk about the consumer, out of stocks and all the other projects we are developing. If we don't do this, everything we do will remain just a project even if it is pragmatic. We need to move from pilot best practices – where the case has been more or less proved– to reach critical mass. We don't exactly know what the best way to do this is, yet. But the idea

Franck Riboud is Chairman and CEO of Groupe DANONE and co-chair of ECR Europe

Without key performance indicators, talking about key ECR concepts is just 'blah, blah, blah'. We need to measure the efficiency of the tools we are developing is to merge more the two populations together to get the same language.

Five years ago ECR was very much about big ideas like partnership and changing attitudes. Now the challenge is to cascade it down the levels of the company and to make it more…

FR: …to make it more pragmatic. For example, if we want to gain critical mass in terms of a common language and day-to-day collaboration, we are not talking about training, say, 30 people in Europe. We need to target 20,000 frontline managers. So we need to find a mechanism for training and that mechanism can't be ECR Europe. It has to be local: local ECR. Also, if we are looking at what different countries are doing – this is another subject – why do we have to reinvent ECR in Poland when it has already been developed in France? We need to benchmark country by country. So one role is local and the European level has another role.

Also, we need to simplify the language. Sometimes we get too sophisticated. We need to simplify tools, simplify the language and get national ECR organisations aligned to this vision, applying it to their own local projects.

Is all this talk of projects a way out of the negotiation game?

FR: I think it has nothing to do with negotiation. ECR is not part of the negotiation game. The negotiation game will continue for the rest of the life of the world. But put it this way. You can negotiate a really good agreement with the trade, or with the retailer, yet still not create the right business. So for me, ECR is the place where you really get down to talking about business, efficiency, tools, common language.

So the idea is to really develop processes to get the waste and inefficiency out.

FR: Yes. But it is also about making progress in terms of value creation through collaborative working. At the end of the day it's very simple. You can attack a subject separately, but if you do it together you will create more value for both companies.

Including innovation, R&D and new product development?

FR: Good question. There are a lot of other things to do first. If you want to jump 60 metres high but you can only jump one metre, it will be difficult. But there are lots of areas where we can innovate together. For example, recently we tested the first multipack dairy products in Poland. Ten years ago the Spanish market already had a lot of multipack merchandise. But nobody had tried it in Poland. Now it is becoming a standard item for the whole industry. For the Polish consumer, it was a new

We need to bring frontline managers from retailers and suppliers together so that they are talking every day in the field, and merging their cultures proposition. So we have examples where there are opportunities for different kinds of product development.

But, for example, you would not collaborate with a retailer over the development of a product like Actimel?

FR: As I explained, we have to look at the areas where, by putting our strengths together we create value. Developing an Actimel – that sort of innovation – is our job.

So innovation is the key differentiator, the key defence against the retail trade.

FR: I don't like your wording. I am not here to protect myself from my customers. I am here to make sure that what I put into the market builds top line profitable growth for me and my customers. So I would never use the word defend or protect. If you are the category captain – if you have a leading brand on the market – you are in charge of the innovation of the category. Putting new products on the market with small cannibalisation with the existing range of products is your job.

The other side of the coin is that innovation doesn't just apply to products. There is a lot of retail innovation that we contribute to. At Danone we are trying to make sure our customer makes more profitable business in our categories. We want to be the strongest contributor to our customers' profitable growth. Now, if you say you need to help your customer sell more in the category, there are plenty of ways we can do that.

In France and some other countries, for example, there is a new segment of flavoured water. Now, we did some shopper research which came to the conclusion that this segment would never develop if we put the product on the same shelf as traditional bottled water. Flavoured water is targeting a different, occasional consumption. So you need to pull all similar items together, whatever the brand, and put them at the entrance of the shop, to get more awareness. We convinced our customers to do this and now this sub-segment is growing at a tremendous rate – 40 per cent.

So if we are talking about collaborating to develop Actimel, or a new retail format, that is going too far. But in between there are a lot of things to be done and I think a lot of innovation is going on.

What is your view on private label development?

FR: I have a special view on private label. First of all, I don't understand why we call it private label. It is store brand. By definition it addresses a consumer need. It is part of the game. Saying that, you have to decide if you are a brand producer or a private label producer. They are not the same business. In the case of Danone it is clear that we are a brand.

We have to look at areas where, by putting our strengths together, we create value. There are many areas of innovation where we can collaborate

Sometimes the retailer makes more money from private label. That is an argument for ECR. It is about the way we work through our customer: we want to see them making money on our brand. If they are making money on our brand, and we are the category captain then OK!

Also, private label is not my job because with the private label I will never get the return, globally speaking. I might get a good return one year, in one country with one retailer. But we have a strategy in place, and that's to be number one in the market. That is my game, my role. And when we can't be number one, we get out of the market. That's what we did in biscuits in Germany. We got out. We let our brand to a producer of private label biscuits.

Can you tell us more about this strategy?

FR: Globally speaking, on the shelf you have the number one brand, the number two brand, and private label, plus what I call first brand. That's all. I don't want to be worldwide number one. Our strategy is to be number one locally with a big gap with number two. But if we add up number one positions in 20 or 60 markets, then I become worldwide number one. So the strategy is to be locally number one with a big gap with number two. The consequence of this strategy is to become worldwide number one.

Now, 75 per cent of my turnover is done through local number one positions with a big gap to number two. Take any angle on what we do, and you will always come back to this strategy. When we are making acquisitions it is to become number one from scratch or to consolidate a position. It is always, always the same story. When we entered Argentina we bought three market leaders. Why? Because in Argentina you already have big retailers. I can tell you that it would be far easier and less expensive to buy the number two or number three.

And this number one position: is it for positioning with the retailer, for market power?

FR: Market power. If we have market power, then we can apply our growth model and develop our trade marketing tools and become category captain, and advertise… and this, and that.

Looking ahead for the next two or three years there are a lot of new things emerging: radio frequency tagging, B2B exchanges and so on. What are the ones that excite you in terms of working together with the retailers?

FR: Everything that puts the consumer in the middle of the game. That's not exactly the technical issues, but what can we do together to understand better the consumer tomorrow. I know everything about the consumer as a yoghurt eater.

Our strategy is to be number one in each local market, with a big gap between us and the number two. If we can't be number one, we get out of the market

Customers like Carrefour and Ahold and Auchan know a lot about the same consumer when the consumer is buying. I know a lot before and after. They know a lot in situ when the consumer buys. We have to build tools to put this together.

Do you think your relaxed and open attitude towards co-operation is a consequence of the fact that you are number one? Can people who are struggling to move from number four to number two have the same attitudes?

FR: I think you make a good point. But we didn't become number one in dairy just because we worked hard. We had the right strategy, the right way to negotiate, the right proposition to the consumer, the right agreement with the retailers. So yes, being number one makes you feel more secure. But that is why I think local ECR is so important. Because if you have, say, 800 people at ECR France it's not only Nestlé, Unilever and the big companies. ECR can also be a good answer for small companies, not only for big companies. That is one of the reasons we have to be flexible with the scorecard. Sometimes, after a presentation, it's easy to think, "I can't use that kind of tool". That is why we have to give a kind of power to local ECR – we come back to the proximity concept. Local ECR is closest to the reality of the field and the reality of the field is not only Danone, Unilever and Nestlé. It is also a number of small companies which can use what the big ones are developing.

Health is now a big concern and your company is closely associated with health. Any comments on the next few years?

FR: We have to be careful not to make marketing with everything. It is true that we have a healthy positioning for the company and the name of the company is Danone. Clearly if you take our three core categories of biscuits, water and dairy, our products are building a healthy image for the company. But we don't want to put the cart before the horse. From the very beginning we had a positioning as a health company. We have to go back to the history of these brands. The Danone brand started out distributing itself via pharmacies. After that, we took decisions which reinforced this positioning.

So if you had one message about your approach to ECR it would be pragmatism.

FR: Yes, it would be pragmatism.

Local ECR is very important because local ECR is closest to the reality of the field. And the reality of the field is not only big companies, but small ones too