ROGER DEROMEDI: **It's a real pleasure for us to introduce this conference. Of course, as a retailer and a manufacturer there are many things that make us different. But there is also one thing we have in common: we both serve the same consumer. And we both face the challenges of common economic and consumer trends, of new technologies, problems of scale and complexity and so on.**

Kraft Foods, for example, is the second largest food and beverage company in the world, with $30 billion in revenues last year. We participate in a broad array of categories in five main sectors – beverages, snacks, cheese, convenient meals and grocery, with beverages and snacks representing 50 per cent of our revenues. And we have a portfolio of strong brands including Jacobs coffee, Milka chocolate, Philadelphia cream cheese and the Kraft brand itself that satisfy the needs of a very diverse set of consumers who differ by culture between countries and by age, lifestyle and food and beverage preferences even within the same country.

These consumers are reached through a diversity of retail channels from kiosks in Latin America to small outlets in Asia Pacific to shops in Eastern Europe to the large hypermarkets in Western Europe, all with different needs regarding assortment, promotions and logistics. So behind our brands lies a strong global organisation with 109,000 employees, sales in over 150 countries and operations in nearly 70 countries.

HANS-JOACHIM KÖRBER: Metro Group is also an international organisation that has to adapt locally to serve diverse customers in different countries and cultures individually. We are one of the major international players in retailing with 2,300 outlets in 26 countries, more than 235,000 employees and € 51,5 billion sales.

Focusing on what unites us: the consumer

BERLIN SUMMARY

Roger Deromedi and Dr Hans-Joachim Körber
Rye Brook, New York, USA and Düsseldorf, Germany

Global manufacturers and retailers jointly face complex, turbulent markets. Working together to serve their common customer is now becoming a 'must'

ILLUSTRATION BY CHRISTOPH FISCHER

To meet the needs of different consumers in these different markets we have developed a range of different formats:

- *Cash & Carry* The Metro & Makro Cash & Carry format is the world market leader in the cash and carry wholesale segment and is the spearhead of our internationalisation.
- *Hypermarkets* Real is the market leader in Germany, and is established as a brand in Turkey and Poland.
- *Neighbourhood* Extra neighbourhood stores are local food stores providing everyday essentials with an emphasis on freshness and quality.
- *Consumer Electronics* Media Markt/Saturn serves consumers in ten European countries in the consumer electronics market. It is number one in the European consumer electronics sector
- *DIY* Praktiker, our DIY business, now operates in eight European countries. It is number two in Germany and number four in Europe.
- *Department stores* Galeria Kaukhof is a traditional German department store format, which we are looking to expand internationally after a successful experience in Belgium.

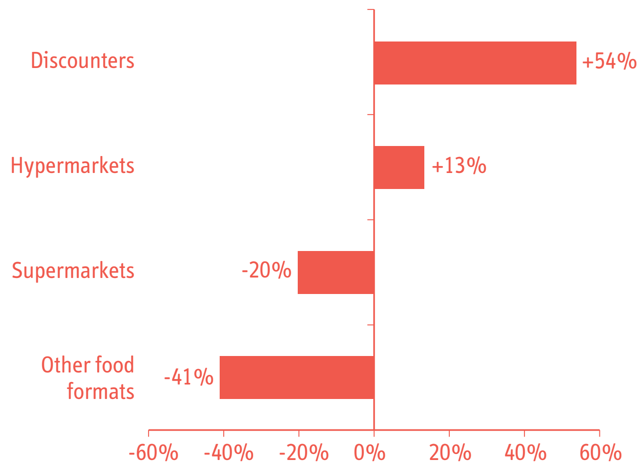
Managing this diverse range of formats across many different countries is a significant challenge because retailing is a local business, done by people, with people and for people.

RD: Globally, we operate in a challenging business environment. We have seen a global economic slowdown and economic crises in regions like Latin America; concerns over food safety; increased societal expectations of companies ranging from their impact on the environment and corporate governance; and evolving consumer trends such as an ever-increasing need for convenience, a desire for health and wellness, and a search for better value.

HJK: Closer to home in Europe, we face a similar set of challenges. The European retail environment can be characterised by low levels of customer confidence, low levels of trust (especially after the introduction of the euro where consumers felt prices rose rapidly, even though big food retailing companies did not even think of increasing their price levels), and intensifying price competition.

Put together, these factors are powering the rise of discounters, especially in Germany where retail selling space is nearly twice as high as in France or the United Kingdom, and where the economy has been in the doldrums. Over the last ten years in Germany, discounters' sales have grown by 54 per cent, mostly at the expense of small supermarkets and mom and pop stores. Only large hypermarkets have also succeeded in increasing market share (See Exhibit 1).

Exhibit 1: Sales growth in Food-Retail 1991-2002 (in %) in Germany



Source: EHI, own calculations 2002

Roger Deromedi is Co-CEO, Kraft Foods Inc. and President and CEO, Kraft Foods International. **Dr Hans-Joachim Körber** is CEO, Metro AG. This is an edited version of their speech to the ECR Europe conference in Berlin, 2003.

But the discount trend is not confined to Germany. It's a major trend across Europe, with discount chains quickly expanding into Western and Eastern Europe. This doesn't mean that price is the only factor in retail, however. We are witnessing the rise of the hybrid consumer, who expects the best prices in basic food produce but is also prepared to pay extraordinarily high prices at convenience outlets or for exclusive, customised lifestyle products. As retailers, we have to adapt and serve all these diverse consumer needs. To do so successfully, we have to become more efficient and tap all the hidden reserves in the supply chain.

For us at the Metro Group, ECR is an integral part of this strategy. We believe we can meet our strategic objective of sustainably increasing the company value by pursuing four strategic elements:

- active management of the portfolio of sales formats
- optimising retail concept and brands to align their offerings to target markets
- fleshing out the existing store network wherever reasonable, both locally and internationally
- optimising processes by collaboration and unlocking the hidden resources that lie in the supply chain.

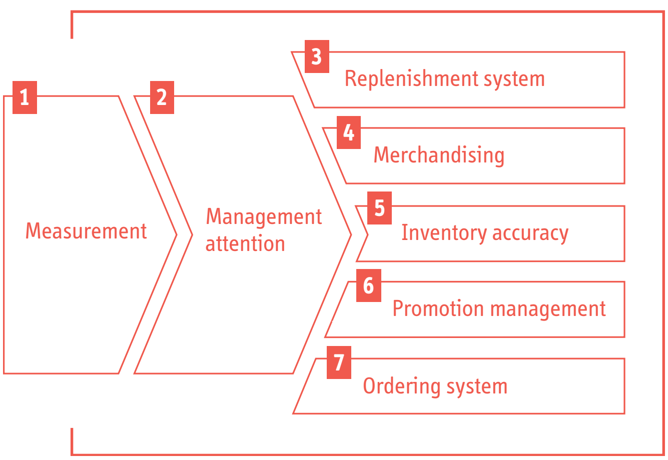
But for us to grow successfully we also need to successfully create demand. And as retailers, we cannot do that by ourselves. That is where manufacturers like Kraft come in.

RD: One way Kraft Foods accomplishes this is by adapting product and marketing to the needs and preferences of local markets. We address this complex and diverse marketplace with what we call a strategy of "best of global, best of local" – leveraging the scale of our global infrastructure to ensure we are satisfying the needs of local consumers and retailers. Take our global advertising campaign for Philadelphia cream cheese, for example. The advertising is locally tailored with different angles, humour and usage ideas to ensure it is successful in every market.

Manufacturers including Kraft Foods play a critical role in driving category growth with our brands through such advertising, through expanded usage ideas and with innovative new products. And there is much retailers and manufacturers can do together – leveraging consumer and shopper insights, optimising product assortment and shelving, executing exciting joint promotions, and collaborating on consumer relationship management.

Here are some examples of how Kraft Foods and Metro are working together to drive demand. First, as a manufacturer, we work very hard to drive increased demand by creating category and brand-building advertising that informs, excites and

Exhibit 2: **ECR optimal Shelf Availability (OSA)**
Source: ECR Europe/Roland Berger



motivates the consumer. Too much focus on price at the expense of advertising will only lead to long-term category declines.

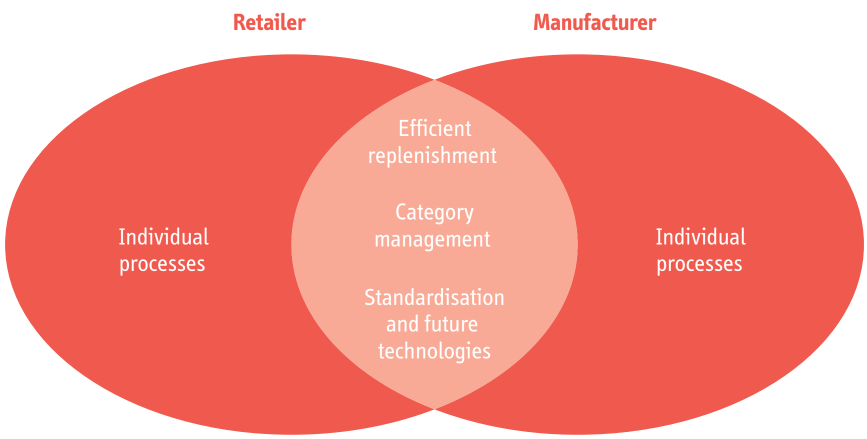
Second, we build demand through category and brand-expanding usage ideas, providing consumers with new ways to use products. And of course, we innovate with new products. For Kraft, this may be a new way to drink coffee, to enjoy confectionery, to have a biscuit fortified with calcium or to ensure meal making is even more convenient. It is our ability to understand consumer needs, leverage our technological and manufacturing capabilities, and drive marketing behind new innovations that creates continued consumer excitement.

There are also many things retailers and manufacturers can do together to share knowledge, to analyse and learn about consumer and shopper behaviour. One example is the point-of-sale eye tracking study we did jointly with the University of Essen and Metro. The objective was to better understand shopper behaviour in front of the shelf, in this example the dairy case, as input for optimal category presentation. One key learning from this study was that the shopper does not start at eye level but looks first for the category leader, so vertical brand shelving is the optimal approach.

At Kraft, we have constructed an overall framework which we call Kraft Plus to guide the application of ECR principles within our business. It has three planks. They are: insight into the consumer, categories and shoppers; the demand side (focusing on areas such as assortment, category management, shelf optimisation and promotions); and the supply side (including themes such as EDI, joint event management, CPFR and so on). Each of these three planks is important. Most important, however, is that we offer them as an integrated solution to retailers – in this way, we both benefit from a larger cake. The uniting factor is the consumer. It's the consumer who links retailers to manufacturers.

Another focus for retailer/manufacturer collaboration is optimal shelf availability. ECR Europe's project team on optimal shelf availability highlighted the main causes of out-of-stocks (see Exhibit 2), finding that out-of-stocks are still high across Europe at 7.1 per cent on average and up to 30 per cent in some categories. When an item goes out-of-stock, nine per cent of consumers buy nothing at all, which results in an estimated €4 billion in lost sales each year in Europe. So understandably at Kraft, we are very keen to understand what really drives out-of-stocks. When we understand these drivers, we can make significant progress. For example, we worked closely with Metro on cream cheese to leverage point-

Exhibit 3: **Collaboration – Focus areas**



of-sale data to optimise the assortment and shelf layout, give the right amount of space to the right products and improve the ordering process. It's not rocket science! But we still achieved a six per cent category growth for Metro's Real hypermarkets.

Joint promotions represent another opportunity for us to work together with out retail partners. To assist us in this work, we have developed the Kraft Plus promotion evaluator which, using AC Nielsen data, combines all available information in one tool, allowing marketers to compare different promotion types, their impact on the category, on store switching, cannibalisation rates and so on. Granted, it is extremely data intensive, and we are still rolling it out across Europe. But by utilising this data we can match the right promotions with retailers to strengthen promotional effectiveness and efficiency and improve total category performance.

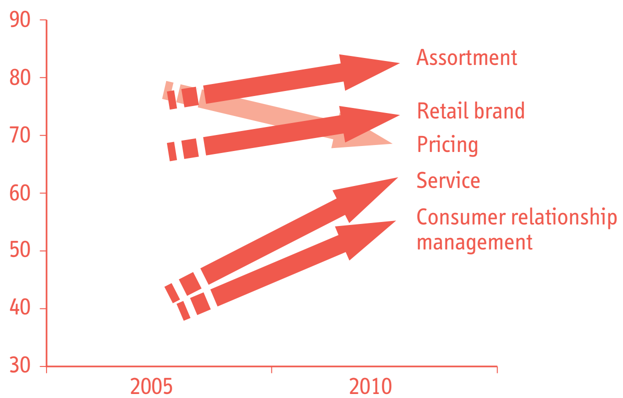
Joint promotions can also be tailored between retailers and manufacturers to address the needs of specific channels. Historically, when manufacturers tailored promotions for retailers, quite often the basic promotional concept was left unchanged and only superficial changes were made. Increasingly, however, we work hard to truly understand what each retailer is looking for from promotions and what its shoppers are looking for. So we are moving from yesterday's 'national' promotions to more and more retailer-specific promotions.

Working with Metro Cash & Carry in Bulgaria, for example, we leveraged the strength of our Nova Brasilia coffee brand to sample and gain distribution on confectionery products in the cafeteria and away from home channel, with good results for Metro and Kraft. In Germany we used direct mail sent to kiosk operators to improve Metro's position in this channel during the Milka Lila Pause relaunch.

Collaborative Consumer Relationship Management is also an area where we are focusing greater attention as we work together with our retail partner. An example is when we teamed up with Metro to send a direct mail piece to members of Metro's Real Club about Jacobs soluble coffee. The aim was to leverage our understanding of the coffee category, with Metro's shopper knowledge, to upgrade the category's performance. Generally speaking there are big potential benefits to be gained when manufacturers and retailers can share information. By combining the retailer's loyalty card data with our insight we can collaborate to build consumer demand and accelerate growth.

HJK: What these examples show is that ECR helps both retailers and manufacturers unlock the unused

Exhibit 4: **The future of retailing: Vision 2010**



Transformation of a "Buying Organisation" into a "Customer Centric Company"

Based on a survey by Accenture 2002

potential in our processes. To do this efficiently and effectively, we have to co-operate closely with each other. Of course, there will always be some processes each partner manages by himself. But there are many areas where collaboration is possible and needed. Exhibit 3 shows some of the areas where close co-operation has already become, or is becoming, a part of our daily business. In the past we tended to treat the supply side and the demand side separately, but increasingly, we are integrating both sides by adopting CPFR. This helps us to generate synergies that have so far been left untouched, while never losing our focus on the consumer.

So what elements will influence the evolution of retailing over the next ten years? In general the retail industry is experiencing a revolutionary process of change and innovation. The industry is becoming more professional. Exhibit 4 highlights what the industry – both retailers and suppliers – believe will be most important in the future.

Instruments like Consumer Relationship Management, service, retail branding and assortment are becoming increasingly important while pricing looks set to lose some of its significance. For a retailer that means that we have to follow the vision of transforming our business from a pure "buying organisation" into a "customer centric company".

New technologies are also a key part of this future, opening up opportunities for more efficient processes plus more customer-oriented, individual marketing, better service and long-term customer retention. Within the Metro Group, the Future Store Initiative – a joint project between Metro Group, Intel and SAP, in cooperation with other IT and consumer goods partners such as Kraft Foods – is an attempt to tease out how such opportunities will shape the future of the retail sector (see Exhibit 5).

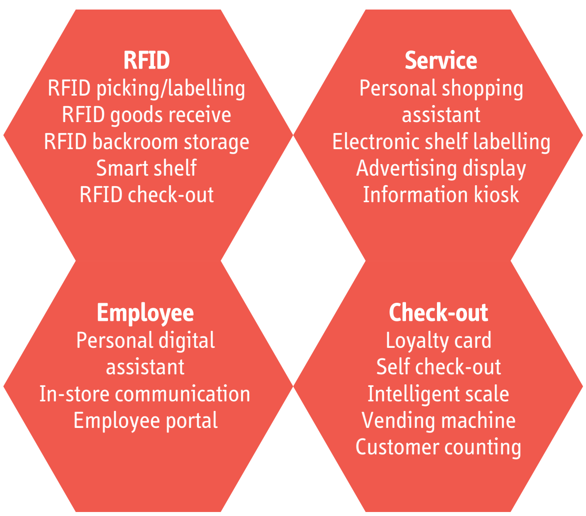
We want to know what state-of-the-art technologies can be realised today to make retailing still more efficient, and which new concepts will be proven in practice and accepted by customers. Our learnings will result in the redesign of processes between retail companies and suppliers as well as between retail companies and customers.

Some of the new technologies we are testing are:

- Radio Frequency Identification
- Personal Digital Assistant
- Personal Shopping Assistant
- Electronic Shelf Labelling
- Self Check-out
- Intelligent Scale
- Info Terminals.

These technologies will enable cost reduction through optimised processes. With RFID, for example, we will be able to achieve greater control over goods from the production stage until they leave the

Exhibit 5: **Technology elements of Metro's Future Store**



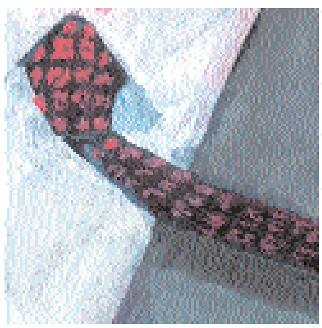
store. Processes will be simplified and accelerated, and empty spaces in shelves will be avoided. Personalised service will improve customer satisfaction and customer loyalty – and will boost sales.

But the new technologies will also have a severe impact on work processes. Employees will have to learn new procedures and become familiar with the operation of new technical equipment. Employees will have to adapt to new requirements in dealing with customers. Consequently, training will be vital for the successful operation of the new technologies.

But worldwide sustainable solutions can only be implemented in a joint effort of the whole industry. Running a business like ours without standardisation has become unthinkable. Just imagine if you – or your systems –had to communicate in a different language every time you did business in a different country. To ensure that ECR developments are not only taking place at local level but become a truly global approach, we have to overcome these barriers together. That means: "collaboration in standardisation".

That is why Metro Group is one of the co-founders of the Global Commerce Initiative (GCI). Together with Kraft Foods and several other leading companies in retail, consumer goods and information technology we are working to define common business processes. In various projects like EDI, product identification, intelligent tagging, global data synchronisation, product classification and CPFR the GCI is setting the standards of the future for the industry. Participating companies have committed themselves to implement the resulting best practices and EAN.UCC standards.

Building demand and driving efficiencies by new technologies and global standardisation is essential for our industry's future success and prosperity. This is the underlying vision for ECR, which is as important today as it ever was.



The retail industry is experiencing a revolutionary process of change and innovation. Retailers are becoming 'customer centric' organisations