Mega trends: I. Consumer well-being and health

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Mega-Trends:
I. Consumer Well-Being and Health

- improved knowledge of relationship between diet and health
- ageing population and search for elixir
- “look good” society
- rising personal cost of healthcare
- in this century, my health is my responsibility
- concern about food safety
- impact of food production on the environment

New product introduction impact:

- lifestyle versus medical
- food plus and food minus
- natural and organic
- vegetarian

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Mega-Trends:
II. Convenience and More

- two income households and changing household size
- increased pace of life
- trading up
- blurring of eating occasions e.g. breakfast-snack-”deskfast”
- blurring of mode-of-purchase i.e. food service and retail boundaries merge

Meal solution categories include:

- ready-to-make (e.g. raw ingredients)
- ready-to-prepare (e.g. pasta and sauces)
- ready-to-heat (e.g. ready meals)
- ready-to-eat (e.g. takeaways, hand-held)

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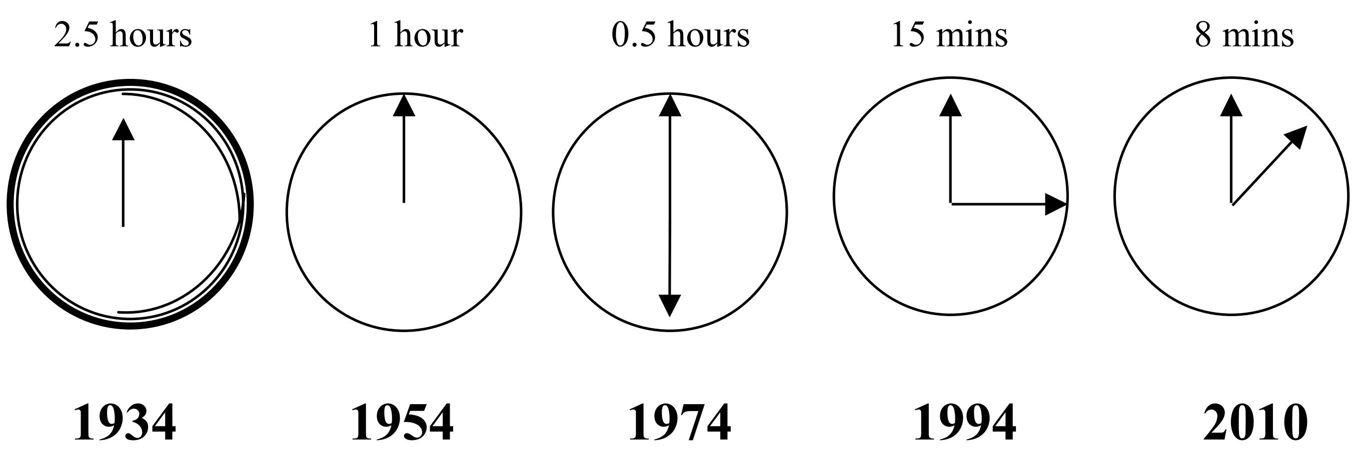
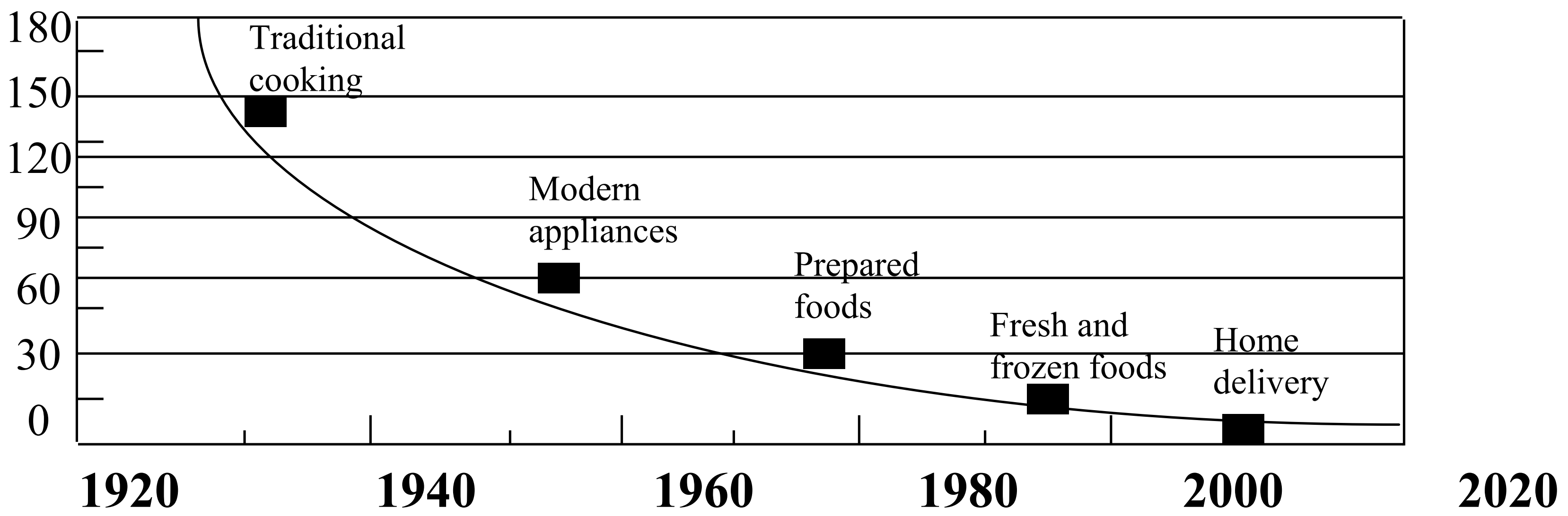
FOOD PREPARATION AT HOME

Home cooking time





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Mega-Trends:
III. Pleasure and Status Indicator

- debit and credit philosophy
- income rich-time poor, and income poor-time poor (both stress-inducing)
- trading up
- increased travel
- TV chefs and media
- ethnic population and restaurants

New product introduction impact:

- exotic flavours
- ethnic flavours
- traditional tastes
- premium products
- premium “look-alikes”

Apart from price, what factors influence your purchase decision most?

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In order of importance (across)

- convenience/ease of preparation

• taste	• appearance
• sell-by-date	• brand
• healthy version	• non-GM
• home grown	• free range
• ingredients	• assurance
• organic	

source: IGD Imperial College 2000

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Potatoes Are a Staple Food: Difficult to Add Value?

Frozen	*Retail € per Kg*
Microwave Chips	8.87
BEW Waffles	6.34
McCain's Smiley Faces	3.53
Waitrose Croquettes	2.40
Chip Shop Fries	1.95
Somerfield Crinkle	1.56
Waitrose Chips	1.15
Somerfield Basic Fry	0.56

Source: Waitrose and Somerfield, February 2001

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Market Share of Top 5 Grocery Chains in Europe by Food Turnover, 2000

Rank	*Country*	*Market Share* Top 5 Chains - % -
1	Norway	98.5
3	Sweden	94.3
6	Denmark	79.3
8	France	76.4
11	UK	63.4
14	Germany	61.8
16	Spain	53.7
18	Czech Republic	30.3
19	Italy	28.0
20	Poland	16.8

Source: M+M EUROdATA

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Retail Globalisation Criteria

- global turnover
- countries of operation
- key region presence
- home market dominance
- clarity of global strategy
- global culture
- cross-corporate information sharing and learning

Source: IGD 2001

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Who Are The Global Retailers?

Rank	***Company***	***Base***
1.	Carrefour	France
2.	Ahold	Neths
3.	Wal-Mart	USA
4.	Metro	Germany
5.	Ito Yokado	Japan
6.	Delhaize	Belgium
7.	Tesco	UK
8.	Casino	France
9.	Auchan	France
10.	Aldi	Germany

Source: IGD 2001

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Compound Annual Growth Rates in Sales, Profitability And Capital Investment for Selected Major European Grocery Companies 1996-2002[1]

— Compound Annual Growth Rate (CAGR %) 1996-2002 —

	Sales Momentum	EBITDA[2] Momentum	Capital Expenditure Momentum
Ahold	27.8	29.7	35.1
Carrefour	22.1	26.9	17.0
Casino	15.4	21.9	17.9
Delhaize	13.6	18.0	8.9
Metro	11.6	15.8	10.8
Tesco	11.5	11.8	19.4
J. Sainsbury	5.0	2.5	5.6

[1]2002 figures are forecasts. CAGR based on total international sales
[2]EBITDA: Earnings before Interest, Tax, Depreciation, and Amortization
Source: Commerzbank AG, Frankfurt am Main, Germany, 2001

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What's constraining the Wal-Mart Tidal Wave across the Globe?

- national/regional markets still differ
- this limits buying scale opportunities (relative to US)
- stronger trade unions in Europe, Australia
- defensive mergers reduce acquisition targets
- strong competitors (e.g. Tesco, Carrefour, Ahold)
- Wal-Mart slow to adapt to non-American environment
- internet technology gives competitors opportunities to implement "fast catch up" IT initiatives

ROUTES TO MARKETS

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IN HOME

DIRECT

- Tele-shopping
- Mail order
- Internet
- Direct marketing

OUT OF HOME

RETAIL

GROCERY

- Supermarkets
- Discounters
- Convenience
- Warehouse Clubs

OTHER

- General Merchandise
- Chemists

SPECIALIST

- Farmers markets
- Video shops
- Noodle shops
- Butchers
- Delis
- Toy shops
- Garden centres
- Bakeries
- Greengrocers

TRAVEL

- Gas stations
- Rail
- Airports
- Ferries
- Subways
- Motorways

LEISURE

- Cinemas
- Beaches
- Sports
- Bowling

FOOD SERVICE

COMMERCIAL

- Hotels
- Restaurants
- Fast Food
- Cafés
- Bars

INSTITUTIONS

- Hospitals
- Schools
- Factories
- Prisons
- Military

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Manufacturer Responses to the Changing Global Grocery Marketing Environment:

Avoiding the 'Boiled Frog' Syndrome

- innovate - NPD and everything
- cost leadership - a necessary condition, not an option
- join a buying group for basics
- geographic diversification - beware 'Chinese Market Myth'
- search for and dominate growth categories
- identify new consumer needs and invent a new category
- expand and develop new routes to the consumer

Avoiding the 'Boiled Frog' syndrome (continued):

- reduce brand portfolio and focus more R&D and promotional spend on fewer brands
- target markets where you can be No.1
- make your brand the most profitable (attractive) in its category for your customer
- develop new brands based on proprietary technology
- gain exclusive access to key raw materials
- develop alliances - horizontal and vertical
- simplify the merchandising approach - EDLP
- consider the unspoken and produce retailer private label!

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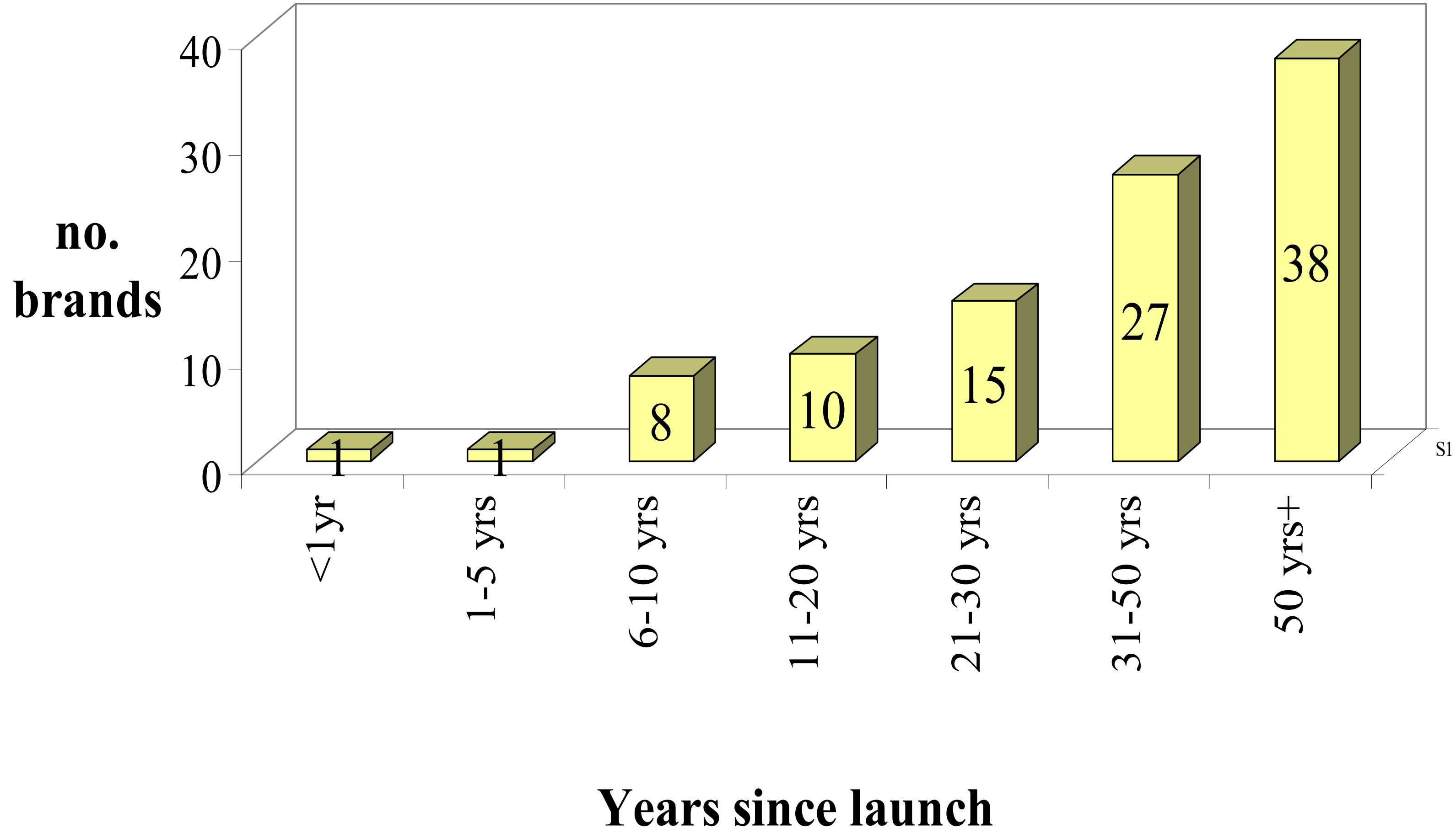
Only 10 per cent of Top 100 Brands launched in last 10 years



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90 Per Cent of New Food and Drink Products Fail within Two Years

- True innovation greater success rate than "Me Too" or line extension
- Products must deliver concept promise
- Long term support - persistence essential
- Major category players most successful
- First to market have lasting advantage
- Trial rates key factor influencing sales volume

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Frozen Category : Shopper Research

- Shopper research studies in the UK, Belgium, Italy and Germany consistently identify the Frozen Category as having low interest for consumers instore

- Consumers describe it as:
  - Visually unappealing
  - Cold, sterile, hospital like
  - Difficult to see what's available and find what you want
  - Complex
  - Unexciting
  - Does not stimulate impulse buying with little time spent browsing

→ ***lack of consumer satisfaction***

SELECTION OF SUPPLY CHAIN PARTNERS

Early 1990s criteria were:

- technical excellence
- hitting service levels
- price competitive

Beginning of 2000s, add on:

- strategic orientation
- innovative
- offering some exclusivity
- profitability