

SYNOPSIS



Joint Value Creation – How Retailers and Manufacturers use Customers Insights to Capture Value

METRO GROUP

 Nestlé

Roland Berger
Strategy Consultants

AGENDA

1. SHORT INTRODUCTION

Who we are and why we are here

2. OUR STORY TODAY

Case 1: Joint value creation using CCR at Metro Group

Case 2: Optimizing the dry goods range

3. FUTURE OF CCR

How will CCR shape future cooperation between retailers and manufacturers? How can you play a role in it?

1. SHORT INTRODUCTION

Who we are and why we are here

METRO GROUP  **Nestlé**

Introductions

André Pallinger, Metro Group

Head of Corporate Development & Strategic CM, *real,-* Group



Norbert Reiter, Nestlé Deutschland AG

Customer Sales Director, Metro Group and Alternative Trade Channels



Tim Manasseh, Roland Berger

Partner, Consumer Goods & Retail Global Leadership Team



Patrick Müller-Sarmiento, Roland Berger

Partner, Consumer Goods & Retail Global Leadership Team



Roland Berger Strategy Consultants is one of the top 4 global consulting firms; We provide strategic advice to top decision makers

Founded in **1967** in Germany by Roland Berger

43 offices in **31** countries, with over **2,000** employees

200+ Partners currently serving approximately **1,000** international clients

Among the top **4** global strategy consultants in the world

and the only **1** of European origin

Our profile

Metro Group is one of the biggest retailers in the world operating in four different divisions



real,- is the leading hypermarket chain in Germany

real,- group at a glance

Sales	EUR 11.5 bn
# of Stores	427
# of Articles	up to 80'000
Number of Staff	55,800
Sales area	5,000 – 15,000 sqm



STRATEGY

- > Leading hypermarket chain in Germany
- > Focus on one-stop shopping
- > Successful new marketing campaign ("Just one store. You won't need more")
- > Comprehensive turnaround process since 2008



OUR STORY TODAY: CASE #1

Joint value creation using CCR at Metro Group

METRO GROUP  **Nestlé**

Unsatisfied customers, declining sales and excessive promotional activity had created a negative spiral



Stores attempt to offset with higher regular prices

Greater pressure on margins

Unsatisfied customers

Declining customer numbers

Negative sales trend

Rise in promotional activity

The ***real,-*** brand needed to be sharpened and made attractive in order to improve customer perception

1

Target-customer-specific marketing



2

More customer-friendly



3

Optimized product range, price and promotion



4

Established Private labels



The permanent turnaround of *real,-* is based on three strategic pillars

A.

Sharpening the *real,-* brand



B.

Optimizing branch portfolio



C.

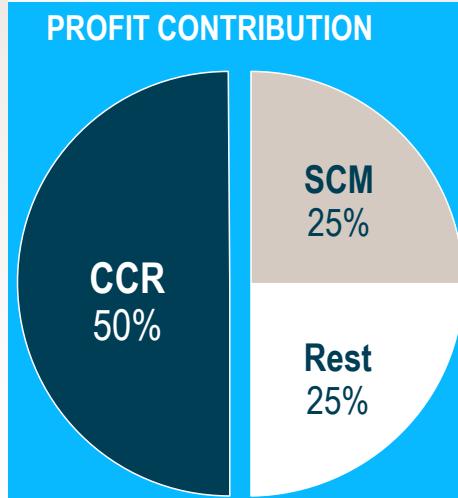
Adjusting costs and structures



→ Taking account of the sales and cost side

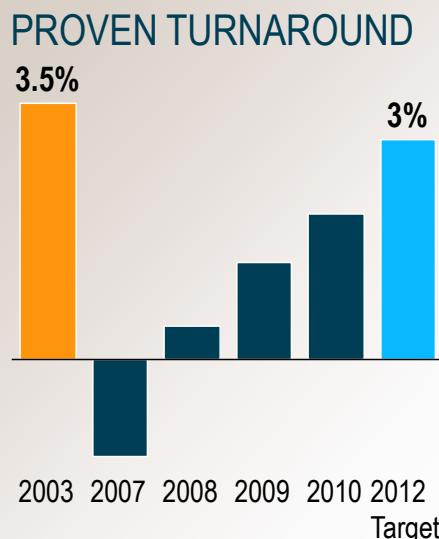
CCR has been the most important element for the turnaround of real,-

A Sharpening the real,- brand



Projects based on CCR contribute 50% to the profit increase of the turnaround process

The results speak for themselves!



POSITIVE INDICATORS

- > Outperformed the market
- > Overall satisfaction improved:
 - Price perception
 - Product presentation
 - Service
- > Brand perception improved

CLEAR WAY FORWARD 2015

Further enhance usage of
customer insights

Grow in **new channels**

Secure and increase
profitability

Customer Centric Retailing follows four clear steps



Source: Roland Berger

We derived **eight** clear **improvement** levers for the usage of customer insights

Cus-tomer	1	We identified 10 customer segments and their growth potential
Brand	2	We aligned our entire communication to our target customer segments
Store layout	3	We optimized the store layouts based on individual customer "DNA"
Marketing mix		
Product assortment	4	We identified the potential for private labels and branded goods
Price	5	We knew which items to offer to our customers at the best price
Promotion	6	We selected the items for our flyers to attract most target customers
Placement	7	We adjusted shelf layouts and chronology according to the shopping behavior of our customers
Organization/ processes	8	We set up a customer-centric organization



The old customer segmentation has been replaced with a new, needs-based segmentation

**OLD
SEGMENTATION**

- > Socio-demographic characteristics formed the basis for segmentation
- > Result:
 - Two segments
 - Family Managers
 - Best Agers



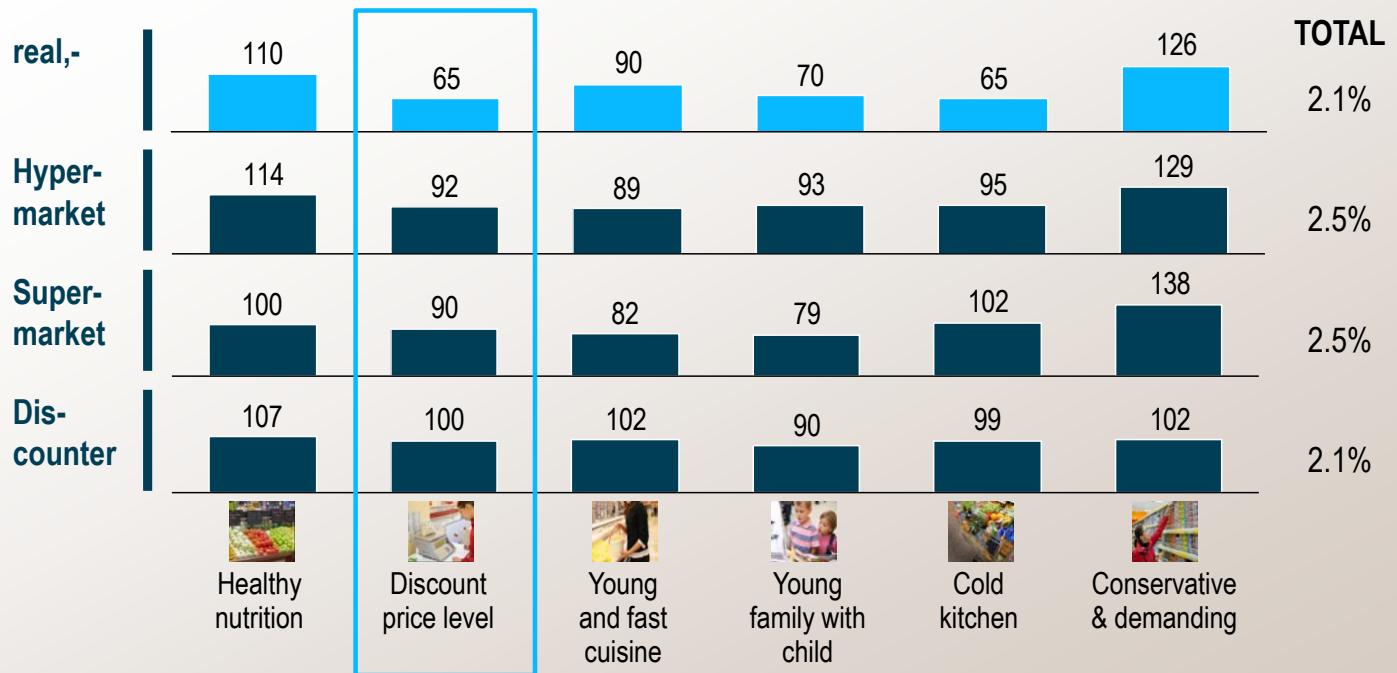
**NEW
SEGMENTATION**

- > Shopping behavior, irrespective of socio-demographic characteristics, forms the basis of the segmentation

Selective needs-based customer segments
with major relevance to purchasing behavior

 **Few insights** into **needs and behavior** of customers

We formed 10 selective customer segments based on purchase behaviors and each segment's value potential was identified



Distribution of spending on laundry detergent vs. total market – Outline

Source: GfK comparison, Roland Berger

GMA Conference 2011Synopsis FINAL.pptx | 17

We developed our brand positioning along the needs of our target customer segments

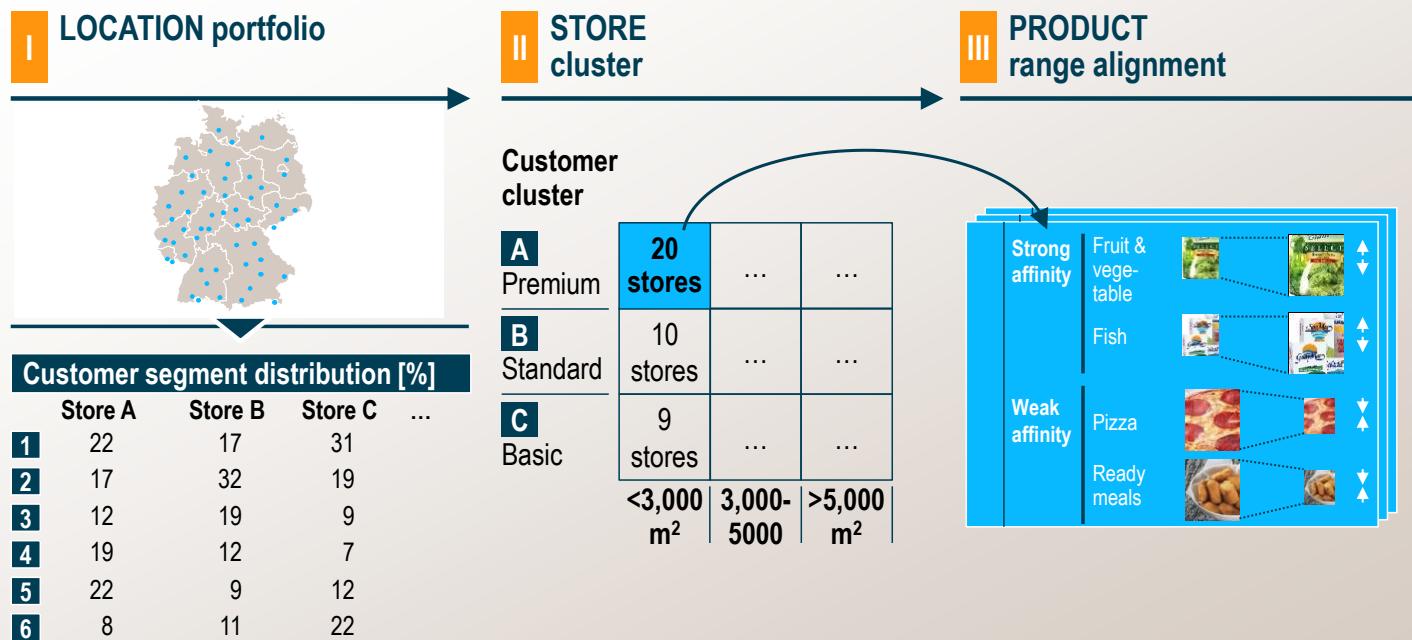
POSITIONING THE BRAND



TARGET CUSTOMER SEGMENTS

					
Healthy nutrition <i>1st focus</i>	Discount price level <i>1st focus</i>	Young and fast cuisine <i>1st focus</i>	Smart Budget Family <i>1st focus</i>	Young family with child <i>2nd focus</i>	Conservative & demanding <i>2nd focus</i>

We clustered our stores based on their individual **customer "DNA"** and size



Customer data is helping us to increase loyalty and customer reach of our entire assortment

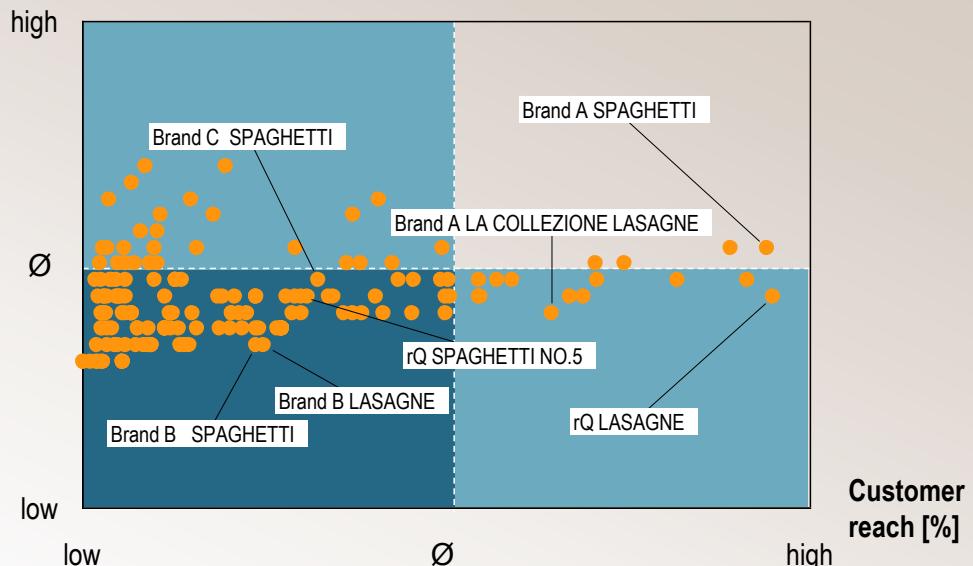
EXAMPLE: NOODLES

75% of branded products with low customer relevance

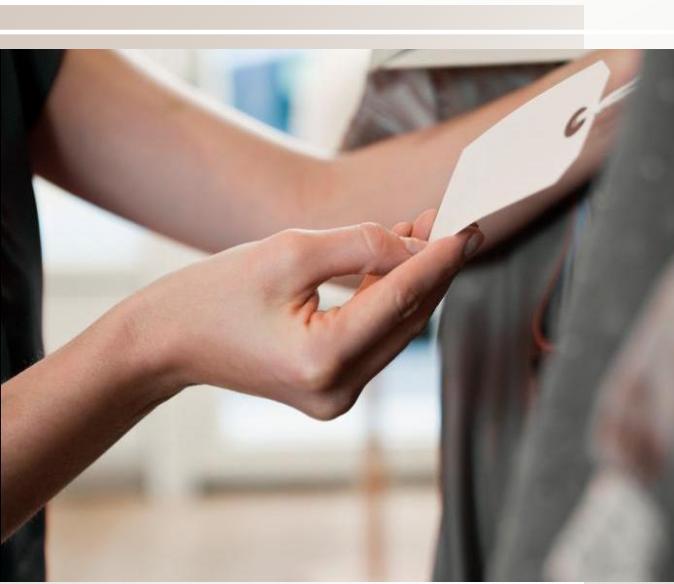
Clear strategies for low relevance products:

1. Increase **loyalty and reach** with CCR levers
2. **Delisting** to free shelf space for other brands
3. Replace with **private label items**

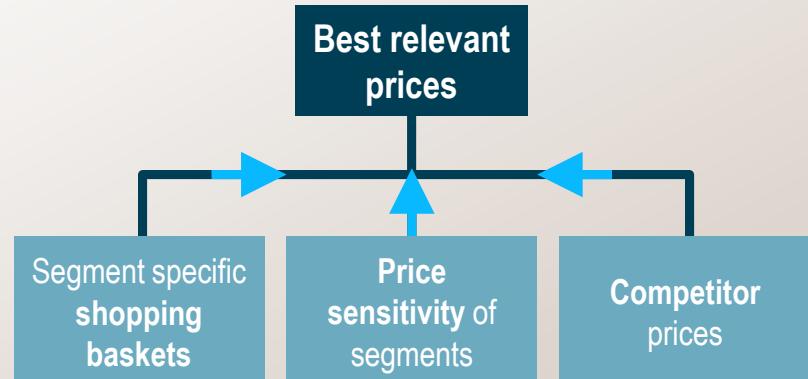
Loyalty [Index 0-100]



Pricing adjustments enable us to target our key customer segments and subsequently increase sales



PRINCIPLE



For flyers we selected the right items for the right customer segments which increased its attractiveness for key segments

ACTUAL NATIONAL FLYER

Week 25



	Reacti- vation	Cust. Reach	Ø receipt
	3%	1%	EUR 34
Customer segment CR index	CS1 CS2 CS3 CS4	102 57 38 77	

ACTUAL TEST FLYER

Week 26



	Reacti- vation	Cust. Reach	Ø receipt
	3 %	2 %	EUR 38
Customer segment CR index	CS1 CS2 CS3 CS4	92 95 93 96	



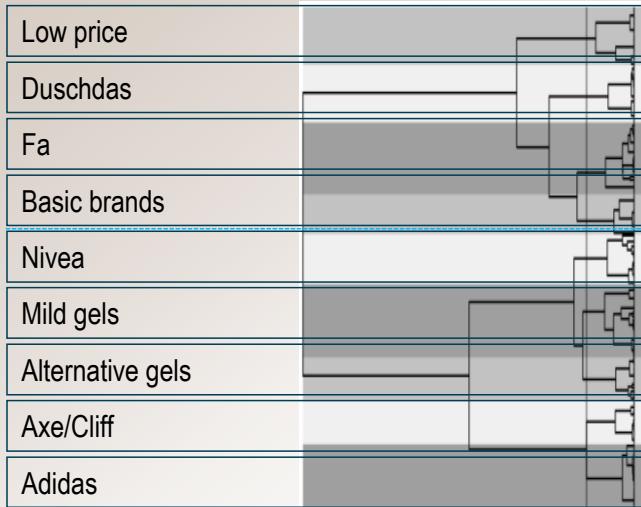
	Reacti- vation	Cust. Reach	Ø receipt
	4 %	2 %	EUR 47
Customer segment CR index	CS1 CS2 CS3 CS4	95 148 72 95	



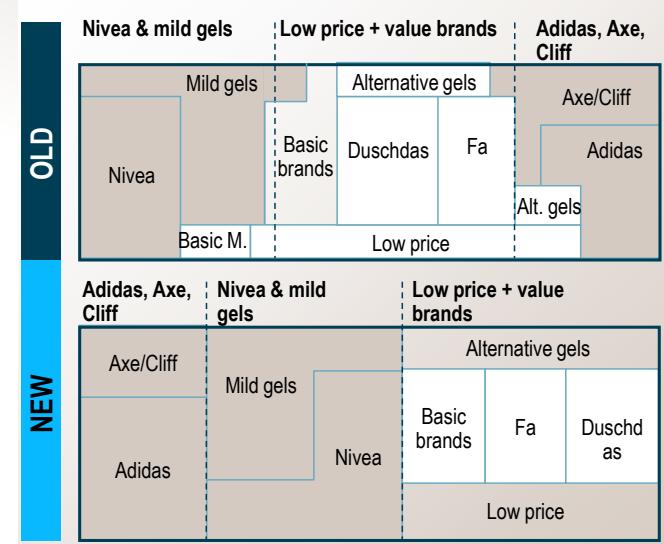
	Reacti- vation	Cust. Reach	Ø receipt
	5 %	3 %	EUR 38
Customer segment CR index	CS1 CS2 CS3 CS4	108 166 91 137	

All our store planograms were reviewed and optimized based on available customer data

CUSTOMER ANALYSIS



ACTION TO OPTIMIZE PLANOGRAM



Together with an industry partner we completely refurbished the FHC category

PROJECT EXAMPLE

BEFORE



AFTER





OUR STORY TODAY: CASE #2

Optimizing the dry goods range at Nestlé

METRO GROUP  **Nestlé**

Nestlé aims to be appreciated and respected for the development of business relationships



*unsere Vielfalt
für Ihren Erfolg!*

Nestlé

"OUR VARIETY AND MULTIPLICITY FOR YOUR SUCCESS"

- > Utilize size and competencies to drive agenda with customers
- > Enhance value in variety and multiplicity in brands, products, technologies, skills, people, know-how
- > Target is to ensure success for customers and their teams as well as for Nestlé

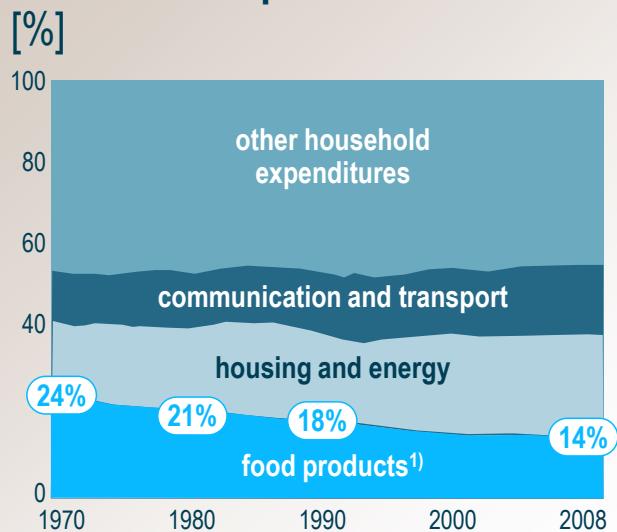
So is(s)t Deutschland 2011



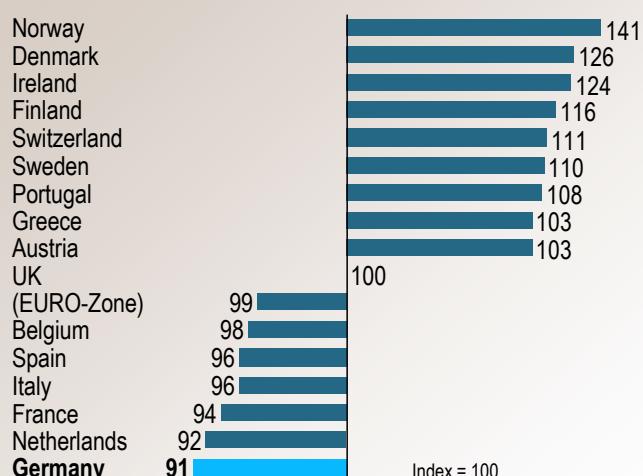
Based on over 10,000 interviews the study analyses how changes in society impact dietary behavior and also highlights shifts in trends in comparison to 2009

Relative expenditure is declining – our shared challenge is how to stimulate increased spend on food amongst our consumers/shoppers

Household expenditures [%]



Price level of branded food products [EU = 100]



INCREASING APPRECIATION = NEW CATEGORY POTENTIALS

1) Includes tobacco products

Nestlé worked closely with *real,-* and Roland Berger to jointly develop a customer-oriented approach to dry goods

BACKGROUND

- > Dry goods are a large proportion of sales for both Nestlé and *real,-*
- > Long-term downward trend in dry goods
- > Dry goods have a low profile

CUSTOMER INSIGHTS APPROACH



Optimization actions were developed based on comprehensive analysis and tested prior to implementation

PROJECT APPROACH

1 Perform 360° analysis of the dry goods range and develop optimization levers

2 Jointly identify growth actions

3 Flesh out the actions to be implemented in a test scenario

4 Test the actions for possible rollout

SUCCESS FACTORS

 Take a greenfield approach

 Share information with team members continuously

 Clearly define the tasks and responsibilities

 Rigorously track project progress in regular meetings

Four levers were defined for optimizing the dry goods range

Optimization areas for the dry goods range

A | SPACE ALLOCATION

- > Revised allocation, taking into account **competition** and **customer structure**



B | PRODUCT RANGE OPTIMIZATION

- > Better **communication** of existing product range variety through customer-guidance system



C | PLACEMENT SYSTEM

- > Improve the flow through the store by creating themed areas such as "**Breakfast**", "**Baking**", "**Pantry items**" and "**Cooking**"



D | STORE LAYOUT

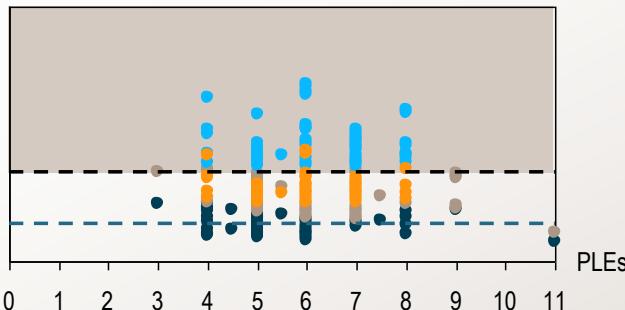
- > Break up the existing shelf tunnels by introducing **department-type** areas
- > Support the **four themed areas** in the store



Space allocation was expanded for categories with above average sales productivity and reduced for below average sales productivity

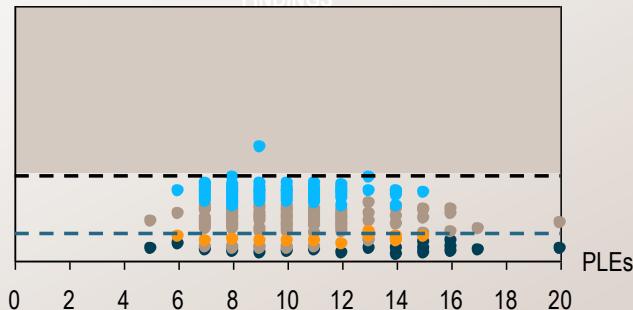
SALES/GROSS PROFIT PRODUCTIVITY – ILLUSTRATIVE

Spices/Dried Mushroom Category, Ø PLE [EUR M]



- > Above-average sales productivity from 6 PLEs onward
- > Well above-average BL GP/PLE across all elements
- > Productivity increases as space expands

Pickled Food Category, Ø PLE [EUR M]



- > Well below-average sales productivity and BL GP/PLE across all elements
- > Productivity continues to fall as space expands

Implementation plan: EXPAND SPACE

- Normal sales/PLE
- BL GP/PLE
- Top 25% normal sales/PLE
- Top 25% BL GP/PLE
- Avg. sales prod. for dry food
- - Avg. BL GP prod. for dry food

Implementation plan: REDUCE SPACE

Different customer segments can be addressed by emphasizing the breath and creating a higher profile for the product range

Optimizing the product range – Example in the vinegar category (1/2)



Emphasis on high-value product range by using special display stands



Broadening the product range by offering a selection of low price products

To create a customer-oriented structure for the department, we subdivided the goods areas into four themed areas

Placement system for themed areas

INITIAL FINDINGS

Customers see no structure in the product range and find it hard to locate items in the department

IMPLEMENTING THEMED AREAS



1 BREAKFAST



2 BAKING

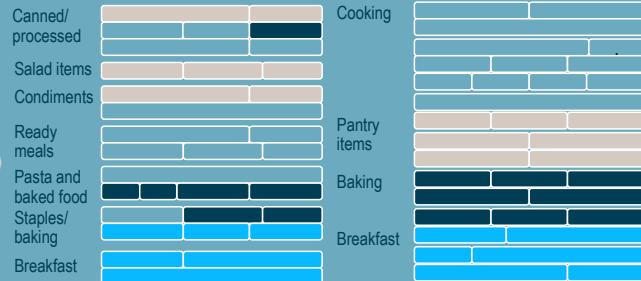


3 PANTRY ITEMS



4 COOKING

REVISING THE FLOW



OLD DESIGN

NEW DESIGN

Optimizing the store layout makes it easier to find items in the dry goods section and makes the section more inspiring

Implementing new store layout

STATUS QUO



- > Hard to find items in the department, long "tunnel"
- > Department is uninspiring

OPTIMIZED STORE LAYOUT



- > Revitalize the department's character by breaking up the shelf structure & making use of color, light & orientation aids

The test stores showed a significant increase in sales and revenue thanks to the implementation of optimization actions

Test implementation and effects

TEST SCENARIOS

Testing the optimization actions in two pilot stores

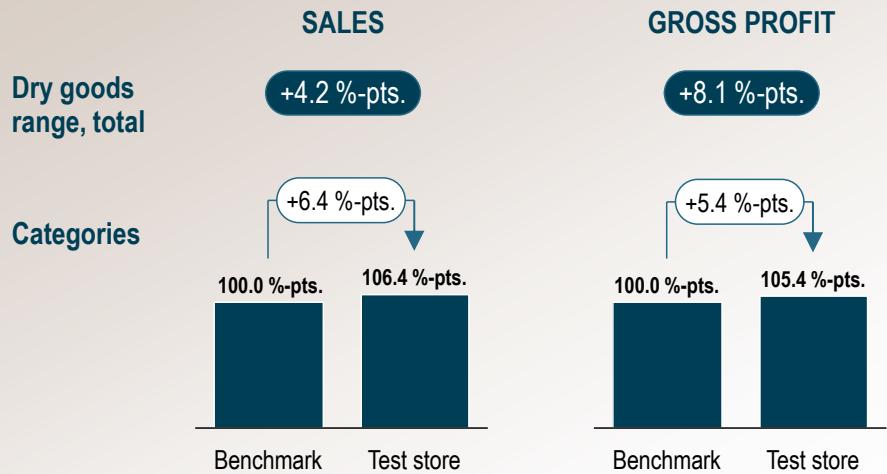
1 Space allocation

- > Use pure space allocation in existing areas

2 Department character

- > Apply space allocation in existing areas
- > Optimize chronology and implementing themed areas
- > Use optimized store layout elements

EFFECTS¹⁾ [percentage points]



1) Test scenario: space allocation



3. DISCUSSION

How will CCR shape future cooperation
between retailers and manufacturers?

METRO GROUP  **Nestlé**

The CCR projects offer the potential for win-win situations and for additional and joint value creation in the future

Overview benefits and key learnings

WIN-WIN SITUATION

- > Full-fledged category optimization based on customer insights



- > Joint value creation with growth potential for both real,- and Nestlé

- > Foundation was laid for sustainable relationship with Nestlé as cooperative Food-partner

KEY LEARNINGS/SUCCESS FACTORS

- 1 Common strategic vision/objectives
- 2 Open exchange of key data
- 3 Conjoint data analysis and performance diagnostic
- 4 Common definition of improvement levers
- 5 Creation of shared execution plan
- 6 Tracking of results

We see two ways for collaboration based on Customer Centric Retailing

1 JOINT VALUE CREATION

- > **Collaboration with suppliers** to create joint growth through **common data base**
- > **Complete category optimization**
- > **All demand and supply levers** used – not only promotion
- > Detached from **regular negotiations**



2 CUSTOMER INSIGHTS

- > Focus on **extending current database** of FMCG players
- > **Marketing and product development** optimization
- > Retailer as **insight supplier**



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Our profile

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