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

Shopper Momentum 2010
Naples, FL – November 10th 2010
AGENDA

1. SHORT INTRODUCTION
   Who we are and why we are here

2. PRESENTATION
   Joint value creation using CCR at Metro Group

3. DISCUSSION
   How will CCR shape future cooperation between retailers and manufacturers?
1. SHORT INTRODUCTION

Who we are and why we are here
Introductions

**Tim Manasseh**, Roland Berger  
**Partner**, Consumer Goods & Retail Global Leadership Team

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

**Patrick Müller-Sarmiento**, Roland Berger  
**Partner**, Consumer Goods & Retail Global Leadership Team
Roland Berger Strategy Consultants is a global consulting firm – We provide strategic advice to the world's top decision makers

Founded in 1967 in Germany by Roland Berger

37 offices in 26 countries, with approx. 2,000 employees

180 Partners currently serving approximately 1,000 international clients

Among the top 5 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

**METRO GROUP 2009**

- **Sales**: EUR 68 bn
- **EBIT**: EUR 1.7 bn
- **Countries with presence**: 33
- **Number of staff**: 290'000

Metro Group is one of the biggest retailers in the world.
Metro and Roland Berger Shoper Momentum 2010 presentation_ FINAL VERSIONPATO CHECK.pptx

real,- is the leading hypermarket chain in Germany

**real,- group at a glance**

<table>
<thead>
<tr>
<th>Sales</th>
<th>EUR 11 bn</th>
</tr>
</thead>
<tbody>
<tr>
<td># of Stores</td>
<td>444</td>
</tr>
<tr>
<td># of Articles</td>
<td>up to 80'000</td>
</tr>
<tr>
<td>Number of Staff</td>
<td>58'000</td>
</tr>
<tr>
<td>Sales ares</td>
<td>4'-18'000 sqm</td>
</tr>
</tbody>
</table>

**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

Metro and Roland Berger Shoper Momentum 2010 presentation_ FINAL VERSIONPATO CHECK.pptx
The **key trends in the German** retail landscape are relevant to the **US**

<table>
<thead>
<tr>
<th><strong>GERMANY</strong></th>
<th><strong>USA</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consumers are very price driven</td>
<td>Consumers increasingly price sensitive</td>
</tr>
<tr>
<td>2. Highly consolidated market, on supplier and retailer side</td>
<td>Ongoing consolidation decreases number of players in the market</td>
</tr>
<tr>
<td>3. High discounter share &gt;40% although stagnating</td>
<td>Discount concept of increasing relevance to certain segments</td>
</tr>
<tr>
<td>4. Own brands already with high markets shares (about 25%)</td>
<td>Strong growth of own brands in traditional retail channels</td>
</tr>
<tr>
<td>5. New channels (e.g. online) with high growth rates</td>
<td>New channels already widely developed, and surging ahead</td>
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2. PRESENTATION

Joint value creation using CCR at Metro Group
Unsatisfied customers, declining sales and excessive promotional activity had created a negative spiral.

- Unsatisfied customers
- Declining customer numbers
- Negative sales trend
- Rise in promotional activity
- Greater pressure on margins
- Stores attempt to offset with higher regular prices
Vision and **target positioning** of *real,-*

Competent food provider with a focus on freshness and an attractive non-food range – which customers only find at *real,-*
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. Private labels established
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,-

Sharpening the real,- brand

**PROFIT CONTRIBUTION**

- **CCR** 50%
- **SCM** 25%
- **Rest** 25%

Projects based on CCR contribute 50% to the profit increase of the turnaround process.
Customer Centric Retailing follows four clear steps:

1. Understanding the customer
   - POS data
   - Consumer panel data (GfK)
   - Loyalty card data (real)

2. Customer segmentation
   - 1: Conservative & demanding
   - 2: Healthy nutrition
   - 3: Young and fast cuisine
   - 4: Cold kitchen
   - 5: Discount price level
   - 6: Smart budget family
   - 7: Hoarding consumer
   - 8: Young family with child
   - 9: Bottle store (reusable)
   - 10: Small present

3. Deriving and testing measures
   - Optimization of our entire Marketing mix...
     - > Store layout
     - > Assortment
     - > Pricing
     - > Promotion
     - > Placement

4. Involving industry partners

Source: Roland Berger
We derived **eight clear improvement levers** for the usage of customer insights

<table>
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<th>Store layout</th>
<th>Marketing mix</th>
<th>Organization/processes</th>
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<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>8</td>
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<tr>
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<td>We aligned our entire communication to our target customer segments</td>
<td>We optimize the store layouts based on the individual customer &quot;DNA&quot;</td>
<td>We identify the potential for private labels and branded goods</td>
<td>We set up a customer-centric organization</td>
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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

Few insights into needs and behavior of customers
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
Based on the loyalty card data we formed 10 selective customer segments according to their purchase behavior.

<table>
<thead>
<tr>
<th>Customer Segment</th>
<th>Customer share [%]</th>
<th>Share of sales [%]</th>
<th>Share of promotion [%]</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  Conservative &amp; demanding</td>
<td>13</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>2  Healthy nutrition</td>
<td>14</td>
<td>16</td>
<td>16</td>
</tr>
<tr>
<td>3  Young and fast cuisine</td>
<td>10</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>4  Cold kitchen</td>
<td>10</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>5  Discount price level</td>
<td>13</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>6  Smart Budget Family</td>
<td>12</td>
<td>9</td>
<td>9</td>
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<td>10</td>
<td>10</td>
</tr>
<tr>
<td>10 Small present</td>
<td>6</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>8  Young family with child</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Roland Berger
At category level, the value potential in each segment was identified.

<table>
<thead>
<tr>
<th>Category</th>
<th>Healthy Nutrition</th>
<th>Discount Price Level</th>
<th>Young and Fast Cuisine</th>
<th>Young Family with Child</th>
<th>Cold Kitchen</th>
<th>Conservative &amp; Demanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real-</td>
<td>110</td>
<td>65</td>
<td>90</td>
<td>70</td>
<td>65</td>
<td>126</td>
</tr>
<tr>
<td>Hypermarket</td>
<td>114</td>
<td>92</td>
<td>89</td>
<td>93</td>
<td>95</td>
<td>129</td>
</tr>
<tr>
<td>Supermarket</td>
<td>100</td>
<td>90</td>
<td>82</td>
<td>79</td>
<td>102</td>
<td>138</td>
</tr>
<tr>
<td>Discount</td>
<td>107</td>
<td>100</td>
<td>102</td>
<td>90</td>
<td>99</td>
<td>102</td>
</tr>
</tbody>
</table>

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

Source: GfK comparison, Roland Berger
We clustered our stores based on their individual **customer "DNA"** and size.
We are optimizing our product range with the help of the customer data

Product range optimization – Outline

1. **CUSTOMER DATA HELP**
   - OPTIMIZE CURRENT ASSORTMENT
     - Define possible delisting candidates to develop private labels

2. **FIND NEW PRODUCTS**
   - Identify the product range gaps

---

**SAMPLE ANALYSES**

- **Units sold**
  - Interesting items for private label development
  - Loyalty

- **Soft drink category**
  - Customer needs
    - Low price (60 items)
    - Innovations (10 items)
    - Coca Cola (80 items)
  - Growth trend

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**FIND NEW PRODUCTS**

- Identify the product range gaps

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- **Soft drink category**
  - Customer needs
    - Low price (60 items)
    - Innovations (10 items)
    - Coca Cola (80 items)
  - Growth trend
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**

Source: Roland Berger
Pricing adjustments enable us to target our key customer segments and subsequently increase sales.
For our flyers we selected the right items for the right customer segments

**PRINCIPLE**

- Maximizing gross profit
- Advertising share
- Normal sales/customer
- Frequency
By switching out certain items in our flyer we increased its attractiveness for key segments

<table>
<thead>
<tr>
<th>Week 25</th>
<th>ACTUAL NATIONAL FLYER</th>
<th>ACTUAL TEST FLYER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reactivation</td>
<td>Cust. Reach</td>
<td>Ø receipt</td>
</tr>
<tr>
<td>3%</td>
<td>1%</td>
<td>EUR 34</td>
</tr>
<tr>
<td>Customer segment CR index</td>
<td>CS1</td>
<td>CS2</td>
</tr>
<tr>
<td></td>
<td>102</td>
<td>57</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Week 26</th>
<th>ACTUAL NATIONAL FLYER</th>
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</tr>
<tr>
<td></td>
<td>92</td>
<td>95</td>
</tr>
</tbody>
</table>
All our store planograms were reviewed and optimized based on available customer data.

### CUSTOMER ANALYSIS

<table>
<thead>
<tr>
<th>Category</th>
<th>OLD</th>
<th>NEW</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low price</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duschdas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic brands</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nivea</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mild gels</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Alternative gels</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Axe/Cliff</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adidas</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### ACTION TO OPTIMIZE PLANOGRAM

- **Nivea & mild gels**
- **Low price + value brands**
- **Adidas, Axe, Cliff**

- **OLD**
  - Nivea
  - Basic brands
  - Duschdas
  - Fa
  - Low price
  - Alt. gels
  - Adidas
  - Axe/Cliff

- **NEW**
  - Axe/Cliff
  - Mild gels
  - Alternative gels
  - Adidas
  - Basic brands
  - Fa
  - Duschdas
  - Low price
Together with an industry partner we completely refurbished the FHC category.

**PROJECT EXAMPLE**

**BEFORE**

![Before Image]

**AFTER**

![After Image]
The results speak for themselves!

**PROVEN TURNDOWN**

- 3.5%
- 3%


**POSITIVE INDICATORS**

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

**CLEAR WAY FORWARD 2015**

1. Further enhance usage of customer insights
2. Grow in new Channels
3. Secure and increase profitability

**POSITIVE INDICATORS**

- Overall satisfaction improved:
  - Price perception
  - Product presentation
  - Service
- Brand perception improved
3. DISCUSSION

How will CCR shape future cooperation between retailers and manufacturers?
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 data base of fmcg players
   - Marketing and product development optimization
   - Retailer as insight supplier
DISCUSSION

Will Customer Centric Retailing be the future or is it just an academic discussion?

How can customer insights help to capture value for retailers and manufacturers?

How will CCR shape the future collaboration between retailers & manufacturers?

KEY QUESTIONS
Delivering results