BLEZAT CONSULTING

The new landscape in fresh produce distribution

WUWM

World Union of Wholesale Markets

Promoting wholesale and retail markets world-wide

Rungis

MARCHÉ INTERNATIONAL

Rungis Symposium

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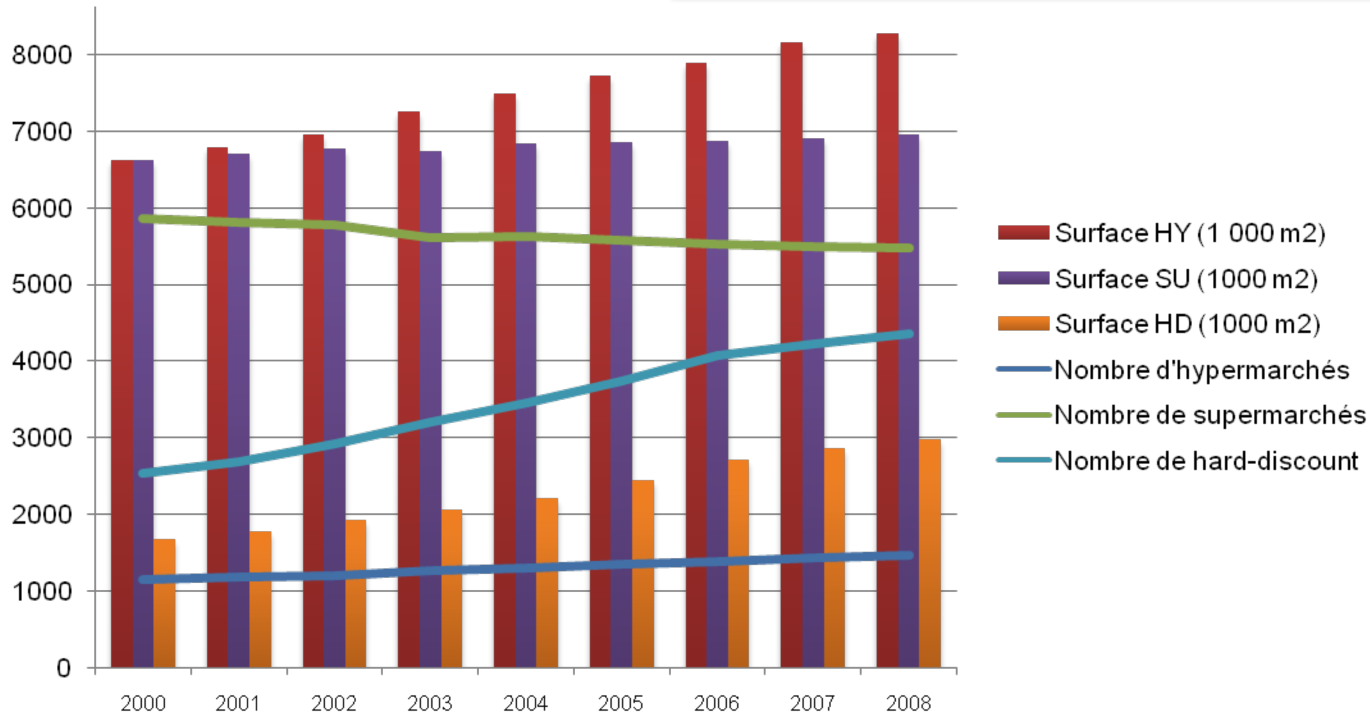
A development of supermarkets which seemed unlikely to stop

- Continuous growth in shop numbers and surface areas, with a breakthrough of the hard discount
- A very strong market share for food: almost 80% of the volumes sold
- A French / European specificity: the hypermarket

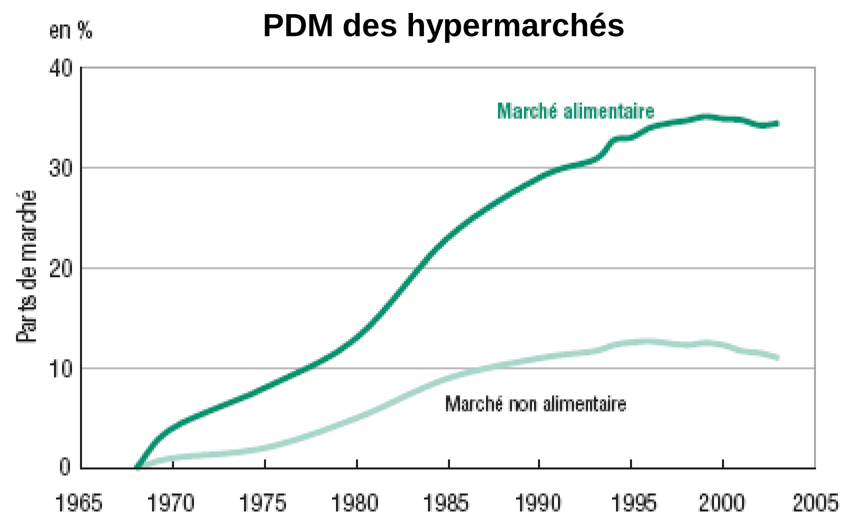
CHRONOLOGY

- 1852: The BON MARCHE opens
- 1915: Development of the self-service in the USA
- 1957: Opening of the first European supermarket DELHAIZE/LION
- 1961: The first hypermarket opens in England
- 1963: The first CARREFOUR opens



The end of hypermarkets?

- A 50 years old business model which starts to run out of steam
- Stagnation of the turnover and first significant decrease in 2008 (> -1%)
- A concept very much threatened by new competitors
  - ✓ Hard discounters
  - ✓ Specialized cash & carries
  - ✓ Branded shops
- **Difficulties in managing the non-edible product range, and even part of the food section**
- **Trust crisis with the consumer**



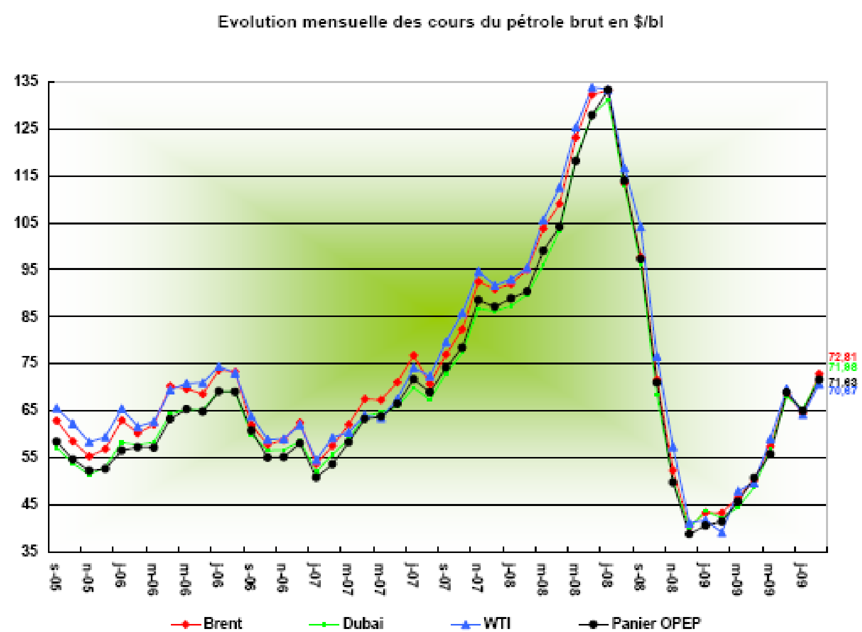
- The end of the « one-stop-shop » model, which still represents more than a third of the food volumes sold (34% in F&V)?

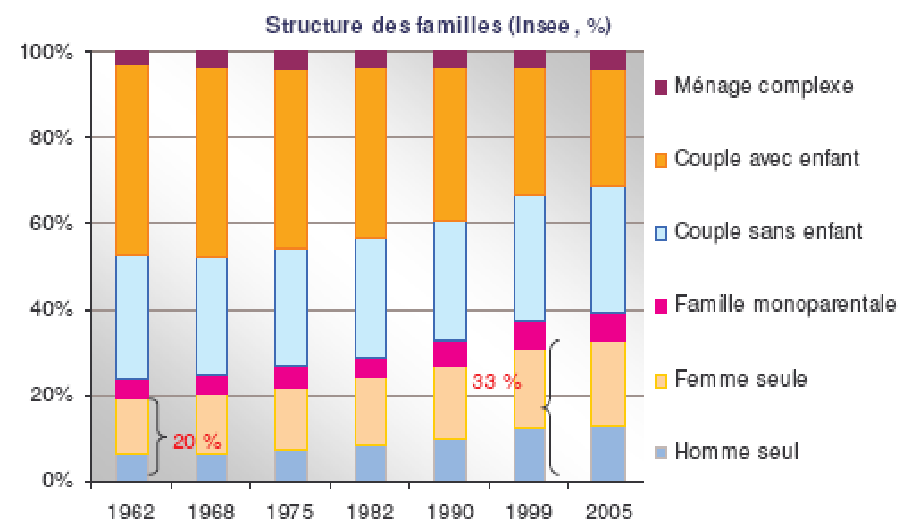
New concepts since 3/4 years in France

chez jean
cafetier & épicier

What is the evolution based on?
Demography and way of life behaviour

- Major demographic evolutions, with a barrel price which impacts the accommodation choice and also the location of the economy:
  - ✓ Population gets more and more urban, with a growing economical polarity
  - ✓ Slowdown in city expansion phenomenon
  - ✓ Break-up of the traditional family model





What is the evolution based on?
Commercial urbanism

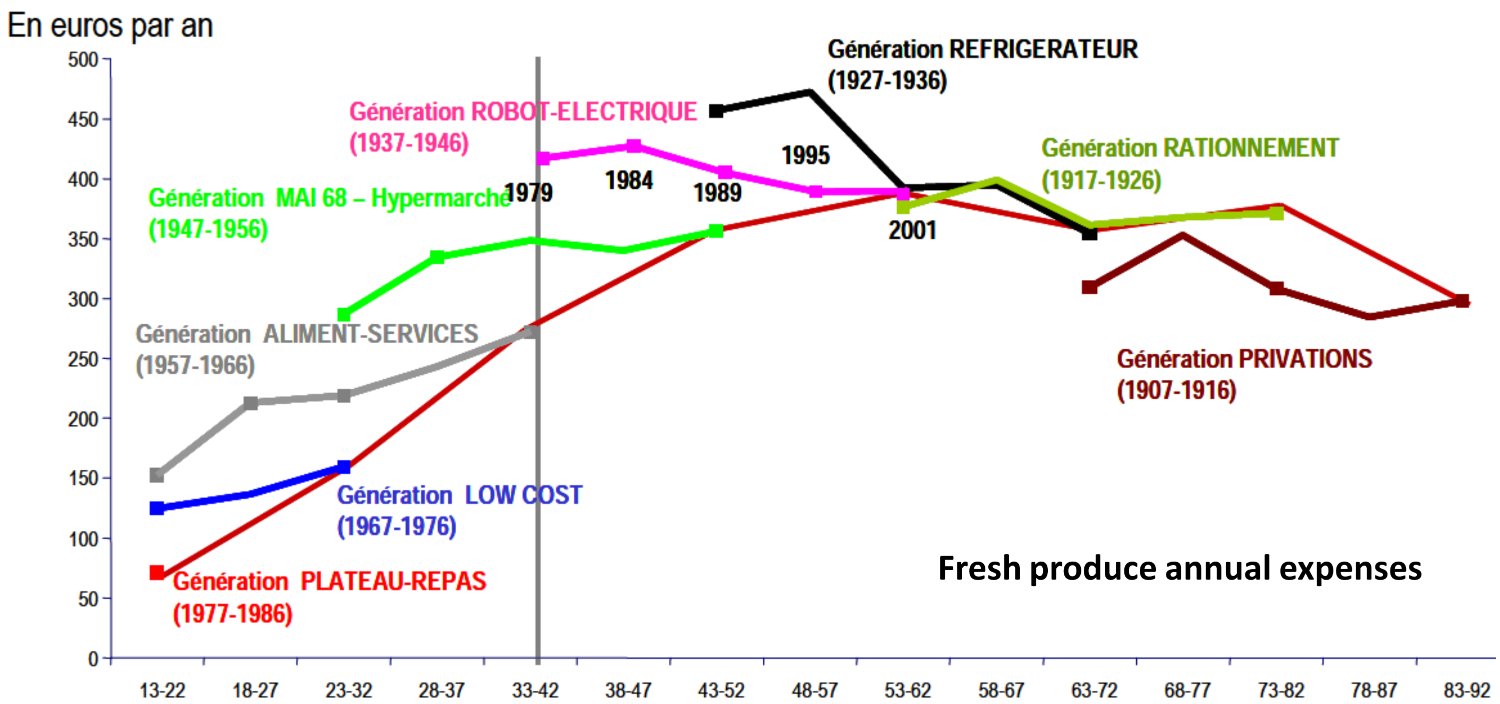
- Strong expansion of proximity concepts and development of new urbanism models

Classical peri urban commercial area near Compiègne

« Walkable Urbanism »
Namba Park shopping mall
built above a train station in Japan

- Specific legislation in France
  - Growth in shopping surface areas
  - Format < 1000 m² in strong expansion (Hard Discount X2)

What is the evolution based on?
Sociological and demographic answer



- Change in behaviours :
  - ✓ « New generations » with new eating behaviour
  - ✓ Consumer have a different approach towards distribution formats
  - ✓ **Growing superposition of the consumer categories**

What is the evolution based on?
Sociological and demographic answer

- A new approach towards time and food:
  - ✓ Budget allowed to food decreases
  - ✓ Way of life changes
  - ✓ Decrease in shopping time / time spent per shop

- Development of online shopping:
  - ✓ Extension of the offer
  - ✓ Satisfaction of new targeted needs
  - ✓ Emergence of a ONE TO ONE customer relationship

- A crisis that modifies/amplifies some behaviours

- Conscience awakening:
  - ✓ The end of the superfluous?
  - ✓ Environment (carbon footprint, food miles…)
  - ✓ Organic (problem in the offer)
  - ✓ Nutrition

What answer from the supermarkets?

- Hyper and supermarkets:
  - ✓ For some of them, come-back to quality with a particular attention to the fresh produce offer:
    - Grand Frais / Casino
  - ✓ Development of new concepts/formats:
    - Proximity/local formats (Carrefour Market, Simply Market, Daily Monop….)
    - Hard Discount (Halles d'Auchan)
    - Most of the times mixing both
  - ✓ Offer adaptation regarding the shop location
    - Carrefour Auteuil
  - ✓ Some of them have saved a maximum profitability, avoiding too important staff expenses

65 %

Stake: becoming traditional

- Traditional food retail; the decrease continues
  - ✓ Poor dynamism
  - ✓ Less and less specialists
  - ✓ Competition from new concepts/formats
  - ✓ Training issues
  - ✓ More and more franchisees

4/5%

- Retail market: a revival?
  - ✓ Resistance after a slump
  - ✓ Reinvestment in city centres
  - ✓ Price argument (-10%)

17 %

- Small shops:
  - ✓ Slower decrease than before
  - ✓ Growth in franchising

3 %

What alternative networks?

- Direct to/from the farm:

4/5%

- Specialized supermarkets: ~1000 m², with a complementary range in the shopping area (HD, frozen, etc…)

3/4%

Zoom on Grand Frais

Grand Frais:

- ✓ 90 outlets (15 openings/year)
- ✓ Average surface area: 950 m²
- ✓ Average shop turnover: € 6 M
- ✓ Employees: ~30 / shop

Business model:

- ❑ Managed by Prosol (originally a fruit and veg' wholesaler), associated with specialized partners (meat, dairy etc.) to build a « multi-fresh » offer
- ❑ Specificities:
  - ✓ Offer mastering by specialists
  - ✓ Each point of sale is an independent company (each section of a shop has its own independent turnover)
  - ✓ Possibility to adapt partnerships according to local opportunities (products, real estate etc.), managerial competencies, financial means…
  - ✓ Linked to a hedge fund for real estate development
- ❑ Good complement to other concepts: HD and frozen stores for example
- ❑ Huge added value to the F&V offer (30 to 50% of the turnover)

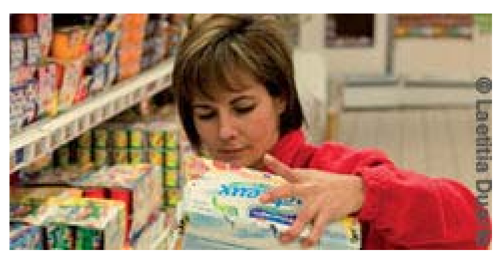
What alternative networks?

- The e-commerce, with pure-players; supermarkets' subsidiaries and a growing number of alternative operators
- Important logistic constraints, **but a 10% annual expansion**
- 3 business models:

< 2%

Home deliveries

Store picking



Drive-in

Benchmark with local supermarkets in England

- A distribution dominated by local supermarkets:
  - ✓ The supermarkets have a 75% market share (value) of food distribution with a large majority of formats between 1,000 and 2,000 m²
  - ✓ The **convenience stores**: 2nd food distribution network with a 18% market share
    - An appealing format for urban consumers and less important households which shop several times a week
    - More and more branded convenience stores developed by multi-format distribution groups with a strong purchasing/bargaining power

Benchmark with local supermarkets in England

- An essential fresh products section which enables a strong differentiation, with an important segmentation in the shelves:
  - ✓ Wider product ranges: premium fruit and vegetables, segmentation according to variety and calibre, large offer in exotics, processed fruit and veg’ (cut, packed etc…)
  - ✓ Hyper-segmentation according to consumption niches: organic products, fair trade, quality certificates, local produce (food miles labelling), etc.

➔ An offer based on global sourcing managed by category managers who buy direct in the exporting countries (South America, South Africa, Egypt, Israel…)

Benchmark with Germany: the hard discounters' leadership

- A food distribution landscape with the following specificities:
  - ✓ A very dense network
  - ✓ A strong concentration in distribution:
    - The 5 main distributors gather 69% market share
    - Domination of the supermarkets in the fruit and veg' retail sales (80% market share in volumes)
    - Independent retailers are declining
  - ✓ A domination of the hard discount
    - 42% market share in value on food
    - 15 000 points of sale (almost saturated)

Benchmark with Germany: the hard discounters' leadership

- Innovations in fresh products distribution come from hard discounters:
  - ✓ Development of fruit and veg' sections (~15% of the turnover): optimization of the mix between prepacked / ready to eat / ready to cook / in bulk, aiming at constantly being as efficient as possible
  - ✓ Positioning on growing trends:
    - Larger organic range
    - Growth in the "convenience range" in response to a loss in cooking behaviour in the households

- Difficulties to differentiate from the other distribution formats:
  - ✓ Competition focused on the price issue
  - ✓ A hypermarket format which suffers from the rising energy costs and the demographic evolution (smaller households, urbanization)

Synthesis

OBSERVATIONS

- ❑ **The end of mass-market?**
  - ✓ **A more complex marketing mix**
  - ✓ New business models appear
  - ✓ Needs and desires more and more different
- ❑ **New distribution formats, even within multi-formats distribution groups**
- ❑ **Less centralization, adaptation to the consumer and its shopping area**
  - ✓ Necessity to develop differentiated offers
  - ✓ A smaller role for the central buying organizations?
- ❑ Development in **services**/Supermarkets and members from the public + proximity

OPPORTUNITIES

- ❑ There is some room for new players specialized in niche products/services
- ❑ Opportunity for wholesalers to reposition themselves given a slump in purchasing from central organizations
- ❑ Opportunity to integrate the retail (ex: Grand Frais) thanks to format innovation
- ❑ New approaches in logistics and importance of proximity delivery

THREATS

- ❑ Distributors' concentration
- ❑ Extinction of independent retail
- ❑ Decreasing agricultural products offer

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