EURO-FIET

EUROPEAN CO-OPERATIVE ASSOCIATIONS IN THE RETAIL FOOD TRADE

EUROPEAN RETAIL ALLIANCE & ASSOCIATED MARKETING SERVICES

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Foreword

This study of European co-operative associations in the retail food trade, in which Koninklijke Ahold takes a preponderant part within the European Retail Alliance (ERA) and Associated Marketing Services (AMS), is primarily intended for employees of Ahold, trade unions and co-partnership bodies. The (interpreted) results are, of course, also applicable to employees and co-partnership bodies of Ahold's ERA and AMS partners and for the trade unions involved in those firms.

As a new development in the retail food trade strategy in Europe is concerned here, this report relating to Ahold may also be regarded as a case study. Thus the report is also of interest to, for instance, staff of Vendex International and other companies.

This research report cannot answer all relevant questions regarding the significance of European co-operative associations in the retail food trade. Research into other co-operative associations would certainly be useful.

This research was conducted at the instigation of the Dienstenbond FNV by Steven van Slageren and Marijke Smit of the Institute for the Investigation of Multinational Companies (SOMO) in Amsterdam. It was carried out in 1992.

The researchers would like to thank all those who contributed to the work, especially the members of the supervisory group:

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SECTION I

OVERVIEW

Chapter 1: Introduction

Besides mergers and takeovers, new strategies in firms operating in the retail food trade in Europe are leading to mutual co-operative associations. Clearly such associations have potential consequences but little information about that is yet available.

Koninklijke Ahold (hereinafter called Ahold), by far the largest distributor of provisions in the Netherlands, has been active since 1989 in two co-operative associations with other food retail firms in Europe. One is a strategic co-operative association with the British Argyll and French Casino concerns under the name of the European Retail Alliance (ERA). The other is an association mainly handling purchases with, once again, Argyll and Casino and also the German Allkauf, the Norwegian Hagen, the Swedish ICA, the Finnish Kesko , the Spanish Mercadona, the Swiss Migros, the Portuguese Pingo Doce and the Italian La Rinascente firms.

The central question of the study is what is the significance of the co-operative associations ERA and AMS? This question may be broken down into three sections:

1. What do the associations ERA and AMS involve exactly and what is Ahold's part within them?

2. What are the current consequences of these associations for the employees and what will they be in the foreseeable future?

3. Besides the consequences which may be directly expected, what are the potential ones which ERA and AMS could have?

The purposes of answering these questions are:

* obtaining an overall knowledge of international developments in the European retail food trade;
* obtaining specific knowledge of ERA and AMS;
* recognising the part taken by Ahold in ERA and AMS;
* discovering the potential consequences for the staff concerned;
* stimulating employees to keep an eye on developments in their own firms and the sector;
* providing starting points for (international) trade union policy with regard to these co-operative associations.

The research methods used were the analysis of written data and our own talks and interviews. International contacts were continually used.

The research programme was conducted in close collaboration with Dienstenbond FNV. The findings were regularly reported to the supervisory group, consisting of executives and employees of Dienstenbond FNV. The researchers also made a contribution to the preparation of information evenings on the subjects mentioned.

As for the structure of this report, following a foreword and introduction, **chapter 2** deals with "Internationalisation in the retail food trade", giving background information on the existence of such co-operative associations in this sector.

Chapter 3 deals with ERA: its establishment, purposes, requirements of participating firms and the concrete results of this small co-operative association of large food retailers.

In **chapter 4** it is the turn of AMS, a co-operative association established shortly after ERA. The subjects handled under ERA are found again for AMS.

Chapter 5, "A look at the future" sets out the main points of contact and differences between the ERA and AMS partners. A look is taken here at purchasing, production, logistics, technology/automation and shop formula/work organisation. Finally, on the basis of the foregoing, two scenarios are described in this chapter, one of minimum and one of maximum co-operation. It will be clear that the scenarios sketched out are based on a number of (assumed) trends and developments, both visible and to be expected.

Profiles of the three ERA partners are given in Section I and those of the AMS partners will be found in Section II.

Chapter 2: Internationalisation in the food trade

A distinction may be made in the food sector between two groups of main protagonists: the food manufacturers and those selling it (i.e. the retail trade). The relationship between the two is undergoing considerable change.

There has been an intense process of concentration among the food producers since the middle of the 'eighties. Leading companies like Unilever, Nestlé and Procter & Gamble implemented an active and successful policy of acquisition. This is much less marked among the second-rankers like BSN, United Biscuits and Campbell's Soup which, in their efforts at fast growth often paid too much for firms which were found not to be worth the money. Firms with a more restricted line of products, like Coca-Cola, are also operating in this market. As has been said, there is a strong tendency towards concentration in this sector. According to the British research bureau OC&C, in the first half of 1991 alone there were 463 takeovers and mergers between food traders[1]. The reasoning behind all these takeovers is fairly clear: concerns consider it necessary to expand. Establishment can then be combined into those with a considerable capacity. It is thus possible to achieve cost advantages as a result of "economies of scale". However, an important problem arises in the formation of such large establishments: the food market in Europe is stagnating. The market share and hence capacity can be increased only via takeovers. There is still enough room in Europe for takeovers since the 20 largest firms have an overall market share of only 12%. The remaining 88% is in the hands of over 100,000 mostly smaller firms. Table 2.1 gives a survey of the leading concerns in and outside Europe.

Table 2.1: retail traders by turnover (in thousand of millions NLG), 1991

Tengelmann (D)	45.1	American Stores (USA)	41.5
Rewe-Leibbrand (D)	38.0	Kroger Co. (USA)	38.0
Carrefour (F)	31.8	Ito-Yokade (J)	28.4
Leclerc (F)	31.6	Safeway (USA)	27.9
Intermarché (F)	30.5	Fleming Cos (USA)	22.3
Sainsbury (GB)	25.8	Super Value Stores (USA)	21.7
Aldi (D)	24.7	Winn-Dixie Stores (USA)	18-1
Metro (D)	22.4	Albertson's (USA)	15.3
Auchan (F)	22.3	Loblaw (CDN)	13.7
Promodes (F)	21.7		
Tesco (GB)	21.1		
Ahold (NL)	19.3		

Source: Capital Cities Media Inc.

The trend towards increasing size has made internationalisation within the international food firms a long-standing phenomenon. Increasing unification in Europe has merely accentuated this. It is also expected that the tendency towards concentration and internationalisation will continue for the present.

1 "Insatiable: Europe's food industry", in The Economist, 11.4.1992

These trends are much less marked within food distribution. The result is that retail traders (chains of shops) are having to deal with ever larger and more powerful suppliers. Whereas previously they dealt with the vendors of a large number of small producers, they are now doing business concerning a wide range of articles with someone from an integrated sales organisation. While they were formerly concerned with salesmen from the sweet manufacturer Rowntree, those for animal foods from Carnation and for baby foods from Nestlé, these three ranges are now concentrated in Nestlé's sales organisation. Another example: Boursin used to be a small cheeseworks; now it is a part of the mighty Unilever.

This unequal balance of power has meant in the retail trade that increases in scale have become higher on their list of priorities. One result of this has been a degree of internationalisation in this sector, too.

In the summer of 1991 the German firm Tengelmann forbade the sale of all Pepsi-Cola products because it was not granted an extra half-percent margin[2], a campaign by a distributor to alter the balance of power with the producers. This is, however, an exceptional example for as before, the weight in the balance of power is clearly on the producers' side.

This balance of power between producer and distributor is greatly complicated by the patterns of consumption in various countries, which differ in both composition and taste. These differences are considerable despite European unification and other developments leading to more extensive international integration. Table 2.2 gives a survey of the purchase of different kinds of foodstuffs in the EC countries. It shows that the composition of the shopping basket differs widely in various countries. The same applies to differences in taste. It is found in practice that some products which are a success in one country flop completely in another. The labelling, packaging or even the country of origin may be responsible for this, even if the taste itself is acceptable. For instance, BSN attempted to put French biscuits on the British market via its British subsidiary Jacobs Bakery. The British consumer, however, wanted none of it. Likewise, British biscuits from MacVities were found to be unsellable in the Netherlands, where the consumer remained faithful to Verkade's Dutch biscuits. MacVities reacted to this by taking Verkade over. Other products, however, do sell internationally. Coca-Cola has succeeded mainly because a Coke always tastes the same and is packaged in the same way wherever it is bought. This puts the producer in a strong position both through "economies of scale" in production and also because the same advertisements and marketing campaigns can be used everywhere.

2 "Battle between grocer and manufacturer" in NRC-Handelsblad, 13.11.1991

Table 2.2: Foodstuffs consumption in the EC (in kg/litres per person), 1990

	meat	milk	veg.	fruit	bread	frozen foods	cheese	share*
Belgium	105	61	98	75	86	18	13	16.0
Denmark	109	59	83	67	30	38	13	14.8
W. Germany	105	60	78	118	61	24	17	17.3
France	110	51	117	77	69	23	22	15.1
Greece	76	60	204	44	70	6	22	41.8
UK	77	118	68	63	44	22	8	11.1
Ireland	87	170	99	50	58	24	5	22.3
Italy	88	67	174	103	131	6	18	18.8
Netherlands	89	60	100	143	61	17	15	15.1
Portugal	68	46	129	37	112	6	5	34.6
Spain	95	95	162	91	107	11	6	11.1

* proportion of food as a percentage of total purchases

Source: Euromonitor

The retail firms have -- successfully -- entered the fray between local/national and international A-brands (quality products with their own name and a strong image) with their "own brands". Own brands are interesting for the retail trade because they can obtain wider margins with them than with the A-brands. Moreover their marketing and distribution can be determined in the firms' own shops. Sophisticated policies have even made various own brands a direct threat to the leading A-brands. The table below illustrates the share of the own brands in various countries.

Table 2.3: Own brands as a percentage of total grocery sales

	1980	1986	1990
France	11	17	20
UK	23	25	34
Italy	4	5	6
W. Germany	17	30	36

Source: McKinsey

For the Netherlands, Food Trends and Foodmagazine found a subtle development. Between 1986 and 1990, own-brand food products fell from 18.3 to 15.9%. Over the same period, the share for non-food products rose from 15.5 to 18.8%. Moreover, the importance of own brands varies from firm to firm. The share of own brands at Albert Heijn lies between 25 and 30%; at Unigro 15%; at Superunie and Edah between 10 and 15%; and in the Schuitema firms 12%. Own brands suffer from the same limitation as the other products, i.e. they are generally used only on a national scale. All the differences between consumer preferences make international own brands difficult to develop[3].

Increases in scale in the retail food trade have so far taken place mainly at national level. This concentration has reached its limits in various EC countries. Further national concentration hardly provides the firms concerned with extra advantages. In

3 See chapter 4 concerning AMS

most countries, the ten largest firms hold 80% or more of the total market. Within those top ten, the pace is set by a few of the largest. The table below gives a survey of the share of the three leading firms in the overall market share of the top ten: note, not the share of the total market.

Table 2.4: Market leaders' share within the total market share of the top ten food distribution firms, 1990

	Top three	**Share %**
Belgium	GB Group - Delhaize le Lion - Makro	65
Denmark	FDB - Dansk Supermarket - Irma	52
France	Leclerc - Intermarché - Carrefour	49
UK	Sainsbury - Tesco - Gateway	56
Ireland	Power Supermarket - National Wholesale - Musgram	52
Italy	Coöp Italia - Végé - La Rinascente	47
Netherlands	Ahold - Vendex - Super Unie	44
Portugal	Sonae - Supra - Pingo Doce	79
Switzerland	Migros - Coop - Usego AG	76

Source: Eurostat

With such a strong concentration on the home markets, the urge to expand is necessarily directed abroad. Firms wishing to expand internationally, however, immediately come up against the same problems as the brands: specific consumer habits in the various countries. Differences between countries are not solely limited to the make-up of the shopping basket and taste but also concern the structure of the sector. While in one country "hypermarkets"[4] may be popular, in others there is a network of small local shops. While in one country the establishment of large shops outside town is popular, in another small specialised shops are introduced into the town centres. In short, the differences are so great that an internationally expanding firm will hardly be able to reap advantages of scale.

In the balance of power between the producers and the retailers, the latter have acquired a powerful weapon with the rise of own brands. Nevertheless, the producers are still the stronger. The distributors are trying to increase their influence by forming international co-operative associations without actually entering into formal mergers. Over the past few years a large number of these co-operatives has grown up with various purposes. A survey of the major ones is given below. These co-operatives form only a part of the total number of collaborations. In the subsequent chapters an examination will be made of the co-operatives in which the Koninklijke Ahold concern takes part, i.e. ERA and AMS.

4 Shops with a sales area of over 2,500 m^2

Important European co-operative associations in the retail food trade, 1991

Coopération Européenne de Marketing (CEM)
Booker (GB) - Conad (I) - Crai (I) - Edeka Zentrale (D) - UDA (E)

Deuro Buying
Asda (GB) - Carrefour (F) - Makro (NL) - Metro (CH)

DiFra
Casino (F) - Rallye (F) - CFAO (F) - Montlaur (F) - Arlaud (F) - Cotteau (F) - Genty-Cathiard (F) - Monoprix (F) - Delhaize (B) - Zanin (I)

European Marketing distribution (EMD)
Markant Handels und Service (D) - Markant Foodmarketing (NL) - Selex Gruppo Commerciale (I) - Selex Iberica (E) - Uniarme (P) - Z.E.V. (A)

European Retail Alliance (ERA)/Associated Marketing Service (AMS)
Ahold (NL) - Argyll (GB) - Casino (F)/Migros (CH) - La Rinascente (I) - ICA (S) - Kesko (SF) - Mercadona (E) - Hagen (N) - Allkauf (D) - Jeronimo Martins (P)

Europgroup
Rewe Zentral (D) - Vendex-Food (NL) - GB-Inno (B)

Intercoop
Coop (D) - Coop (CH) - Coop (A) - Coop (I)

Intergroup of Department Stores (IGDS)
Karstadt (D) - Printemps (F) - Jelmoli (CH) - Selfridges (GB) - V&D (NL)

Sode
Paridoc (F) - GB-Inno (B)

Spar
Unigro (NL) - Intergroup Trading (NL) - Internationale Spar Centrale (NL) - Spar Internationale Financierung (NL) - Intergroup Finanz (CH)

Tengelmann
Löwa (A) - Skala Coop (H) - Isoceles (GB) - KD-France (F) - Hermans (NL) - Superal (I) - A&P (USA) - Gateway (GB)

Source: Lebensmittel Zeitung/Food Magazine

Chapter 3: European Retail Alliance (ERA)

According to Mr. Ahlqvist of the Board of Management[5], Ahold has drawn up two strategies concerning Europe which are being pursued in parallel. On the one hand attempts are being made to increase turnover by purchasing it, i.e. by takeovers. Ahold has long been seeking suitable takeover partners in Europe. As many food retailers in Europe are on the takeover road, the prices of possible candidates are rising. Ahold is finding most possible firms to be taken over too expensive. In countries like France or Germany a large enterprise would have to be taken over in order to obtain any significant position on those markets. In Germany, for example, the takeover price of a firm with a turnover of nearly 7 thousand million NLG is 25 to 30% of that figure. Ahold has declined to pay this. Further efforts are on hand, mainly in the somewhat smaller countries. In 1992 a large minority holding was taken in an important supermarket chain in Portugal, Pingo Doce. On the other hand, Ahold is trying to maintain the existing turnover at lower costs, i.e. by increasing profitability. This latter strategy is being applied by entering alliances: ERA and AMS.

ESTABLISHMENT

Ahold has made an analysis: in which European countries is the situation much the same as in the Netherlands and which retail food firms in Europe are comparable to Ahold? According to the analysis, important countries are the UK, France and Germany. A look was first taken at firms in these three countries.

According to Mr. Ahlqvist[6] of Ahold's Board of Management, two factors are important in a co-operative association:

1. Externally: an image or identity must be built up. Therefore an alliance or partnership must be set up.

2. Internally: good relations of trust must continually be built up.

At the end of 1992, Mr. Ahlqvist[7] defined the criteria for membership of ERA more closely:

1. Comparability of size (turnover, assets)
2. The same formula (no discount)
3. The same attitude towards suppliers (win-win situation)
4. Comparable attitudes among management and staff to permit co-operation.

It must be possible in the field of distribution to hide nothing from one another and develop new systems together. It must also be possible, for example, to work together in the field of management information systems (MIS), the supervision of subsidiaries, training, to combine the joint development of shop formulae by the knowledge of one

5 Interview with Messrs. Ahlqvist and van Gent with Wibe Drijver (Dienstenbond FNV) and Marijke Smit (SOMO), 16th November, 1992

6 Salaried staff conference, 5th September, 1989

7 Interview by Wibe Drijver and Marijke Smit on 16th November, 1992

partner's given type of shop with the other partner's knowledge of the market. Joint product development must also be possible and the development costs shared. Moreover, the manufacture of one product for the European market can be concentrated in one place owing to the fall in transport costs. Ahold is visiting various retailers in France, Germany and Britain. In Britain, for example, Sainsbury and Tesco are being sounded out. In France, Ahold did not find Carrefour interesting owing to its strong orientation towards hypermarkets at the time. In Germany, it did not find Asko interesting either but Asko is trying to force an entry into ERA by secretly buying Ahold shares. Ahold is capable of fending that off.

In 1989 Ahold found reasonably like-minded partners in Britain (Argyll) and France (Casino). A German partner was not found and the search was soon abandoned. In May, 1989, Ahold, Argyll and Casino set up the European Retail Alliance (ERA).

PARTNERS

The three ERA partners are comparable in a number of respects.

The history of both Ahold and Casino dates back to the last century, whereas Argyll is a relatively young firm. They are three large concerns with a strong position on the domestic market. In their own countries, Ahold, Argyll and Casino are respectively in first, third and fourth positions in the retail food trade. The ERA partners will try to stay or become number one.

In 1991, Ahold's total turnover was almost 21 thousand million NLG, Argyll's 16.5 thousand million NLG and Casino's 14 thousand million francs. In that year, Ahold's, Argyll's and Casino's net profits amounted to 276, 688 and 183 million guilders respectively.

The respective employment figures for Ahold, Argyll and Casino for 1991 are about 100,000 people (nearly 63,000 full-time equivalents), about 67,000 (nearly 44,000 fte) and some 47,000 (nearly 36,000 fte). In the retail food trade in Europe alone, a good 21,000 fte work at Ahold, about 44,000 fte at Argyll and 26,000 at Casino.

In 1991 Ahold had just 600 supermarkets in the Netherlands, nearly 500 supermarkets in the USA and some 600 other shops (off-licences, druggists) in the Netherlands and Belgium. In the same year, Argyll had a good 800 supermarkets in three different forms. Casino has over 2,500 shops in France selling foodstuffs: local shops, supermarkets, hypermarkets, cash-and-carrys and convenience stores; in addition, Casino owns about 100 cash and carrys in the USA. Thus both Ahold and Casino are active on the American market but not in overlapping areas: Ahold is on the eastern seaboard and Casino on the west coast. Besides being retailers, Ahold and Casino also produce foodstuffs, but Argyll has no production facilities itself. Whereas, however, Ahold finds its own production strategically valuable, Casino is in the course of sloughing off as much production as possible. Both Ahold and Casino have operated restaurants; Ahold gave them up years ago, and Casino is now in the middle of a similar process.

In the food sector the three concerns largely aim to supply quality goods at a reasonable price. Like the larger Casino supermarkets, Albert Heijn (Ahold) and Safeway (Argyll) aim at the higher market segments. All of them pursue an active "own brand" policy. By way of experiment, some of Argyll's own brands have recently become available in a few Casino shops and vice versa.

Ahold and Casino are and remain primarily on the search for takeovers. Ahold, for instance, has taken an interest in Schuitema and has bought a fourth American supermarket chain; in addition, it has recently been active in Czechoslovakia and Portugal. It intends to buy yet a fifth American chain and at the same time is trying to find suitable candidates for a takeover in Europe. Casino has taken over La Ruche Méridionale and, more recently, Rallye. It is also now seeking a candidate for takeover in the French area where it is not yet represented: the north-east. Overall there appears an important difference between the two concerns: Ahold is expanding primarily abroad and Casino mainly at home. Argyll's major acquisition was that of Safeway in 1987.

PURPOSE

The purpose of ERA is to attain forms of strategic co-operation. Its field of operations comprises:

1. **Production**
   - 1.1 Purchase of raw materials
   - 1.2 Exchange of knowledge
   - 1.3 Acquisition of machines
   - 1.4 Production co-ordination
   - 1.5 Integrated production

2. **Acquisition of shop fittings**

3. **Development of shop formulae**
   - 3.1 Acquisition of shop fittings

4. **Development of management information systems (MIS)**
   - 4.1 Acquisition of hard and software

5. **Distribution and logistics**
   - 5.1 Acquisition of installations and lorries

6. **Management development**

7. **New enterprises**

8. **Financing methods**

At the inception of ERA and AMS Ahold and Casino let it be known that they expected their own production facilities would benefit from the co-operation. Argyll had and has its own production facilities.

METHOD OF OPERATION

Within ERA and AMS have been set up project groups consisting of members' and partners' experts in that field who draw up a list of requirements in the various sectors, e.g. distribution. In principle, two members of the Board of Management of each partner are in ERA and assess the proposals of the project groups.

Only Ahold has set up a concern-linked Eurodesk, originally intended for the co-ordination of operations in the ERA and AMS context. At present, however, the Eurodesk is mainly engaged in developing the Mana supermarket chain in Czechoslovakia and the new joint venture in Portugal. The staff of the Eurodesk in the summer of 1992 was 15 full-time equivalents. ERA may formally request man-hours from the Eurodesk experts.

MUTUAL SHAREHOLDINGS

In order to demonstrate the intention to co-operate seriously, mutual shareholdings were rapidly instituted, in October 1989, to the value of 50 million ECU. Ahold now has a 4% stake in Casino and 1.6% in Argyll, while Casino and Argyll each has a 3.8% interest in Ahold. Ahold and Argyll's holding in Casino fell slightly in 1992 with the takeover by Casino of Rallye. Discussions are being held in Ahold on whether to re-establish the level of its holding in Casino. In its turn, ERA has a 60% share in AMS, which is primarily purchase-oriented. That holding of 60% is evenly distributed between Ahold, Argyll and Casino.

ACTUAL OPERATIONS

The (few) actual joint operations taking place in ERA are difficult to track down and therefore only a fairly arbitrary summary can be made.

Production

- Joint purchase of raw materials
  Ahold and Casino jointly buy flour from Ahold's permanent supplier.

- Exchange of knowledge
  Argyll has already gained a few years' experience in a new method of packing fresh meat, i.e. vacuum packaging. This process has only recently been introduced by Ahold. The manner in which this exchange of knowledge has come about is not precisely known, nor the price involved. It is known that people from Safeway and Ahold's central butcheries have visited each other's works, but this occurred only in the context of a courtesy visit by the British. No agreements or detailed exchanges of information were made during that visit.

- Co-ordination of production
  For some time there has been talk of a possible production exchange between Ahold and Casino. Both concerns had their own coffee roasting plants, Marvelo and Camasa, and their own wine bottling works. Thought has been given to having Casino's coffee roasted henceforth by Ahold and Ahold's wine bottled by Casino. A brief test has been conducted but it has not led to any actual exchange. Meanwhile, Casino has got rid of its own coffee roasting plant Camasa and has its coffee roasted elsewhere. This should have no adverse effects on the investments in Marvelo. For practical considerations, Ahold does not find it useful yet to have its wine bottled by Casino (different area, problems with bottle returns).

No other studies or tests are currently on hand in the field of production co-ordination. Now that Casino has largely got rid of its production works an exchange can hardly be considered. Casino and Argyll could indeed make purchases from Ahold's production plants which, however, are at present directed more towards the AMS than the ERA partners.

Distribution and logistics

- **Composite**
  Argyll was the first enterprise to work with the composite system and integrated haulage, meaning that various kinds of product (dry, cooled, deep-frozen) are transported to the branches together. Composite and integrated haulage is designed to transport as little "air" as possible or avoid lorries having to run empty.

  Both Ahold and Casino are now in the course of changing over to these systems. Experts from Ahold and Casino have paid a large number of visits to Argyll to examine the system. At the same time they are visiting the Finnish firm Kesko which has a largely automated distribution system. In the introduction of composite and integrated haulage, Casino and Ahold have called upon the same consultants as Argyll. Ahold is not in such a hurry since the distances to be covered in the Netherlands are not as long as those in France and Britain. In the words of Mr. Ahlqvist[8], "You can afford to leave the takeover of distribution systems until later".

- **Acquisition of means of transport**
  After considerable investigation, no decision has been taken on the joint acquisition of external or internal means of transport. This is partly because of differences in transport organisation (own or third-parties' vehicles). Moreover, in the field of internal transport, Argyll and Casino are considering following Ahold's example and having maintenance and repair work done by the supplier instead of employing their own fitters.

- **Suppliers**
  All three of the concerns are trying to reduce the number of suppliers' deliveries directly to the branches. They prefer to have more done via the DCs (distribution

8 Interview with Wibe Drijver and Marijke Smit on 16th November, 1992

centres). Casino has by far the most suppliers (9,200) and is drastically reducing this number. It is not known how knowledge and experience is being exchanged in this field.

- **Stocktaking**
  A comparison has been made between the stocktaking systems operated by the three partners. The outcome is not known.

- **Goods flow tracking**
  The idea of goods flow tracking is being examined more closely in ERA.

- **Distribution costs**
  It was intended to examine the distribution costs of the ERA partners, but Casino has meanwhile dropped out. No great differences have been found from a comparison between the distribution costs of Ahold (Albert Heijn) and Argyll (Safeway).

- **Distribution centres (DCs)**
  The DCs are being informally examined and compared within ERA and AMS. Kesko (AMS) has automated large parts of its DC. Argyll has contracted one or two DCs out to third parties. In Ahold, only the deep-frozen products lie outside the firm's own DC organisation. Ahold wants to keep the DCs under its own control.

- **Distribution network**
  The idea of eventually setting up a European distribution network has been launched and examined. In 1992 Mr. Ahlqvist said that it was unlikely that joint ERA-partner DCs would be set up.

Acquisition of shop fittings

- **Scanning equipment**
  The ERA partners have held joint negotiations with NCR on the acquisition of scanners and have subsequently bought them jointly. In fact, this was the first actual joint operation within ERA.

- **Tills**
  The firms examined one another's tills but then each one went back to its own supplier.
  It is primarily Ahold which is interested in the development of unmanned tills in view of the small floor area and relatively short opening hours.

Development of management information systems (MIS)

- **Acquisition of hard and software**
  The ERA partners have acquired a standardised electronic mail system. The three firms have negotiated jointly with Texlon concerning hand-held terminals. They are also to negotiate jointly on the acquisition of laser printers, PCs and

frequently used software. PCs have finally been jointly obtained. In other fields management philosophy and the distribution systems (in-house or contracted out) were found to vary so widely that co-operation had no point. The differences in data input were found too great even in the field of wages administration.

- **Insurance**
  Taking out joint insurance policies has saved all ERA partners a great deal – there is talk of millions of guilders. The insurances are against operating risks, fire, property and third-party liability. Casino and Argyll have learned various things from Ahold concerning prevention, thus obtaining a lower premium. In addition, the volume combination has led to lower premiums for all the partners.

New enterprises
The ERA partners have not jointly taken over other firms. In November, 1992, Mr. Ahlqvist did not expect that to happen in the future.

Financing methods
There has been no co-operation in the financing of operations by one ERA partner by the others and such is not expected, either. It is possible, however, that the partners could help one another in finding attractive financial constructions.

DEVELOPMENT

ERA's development appears to be stagnating. In the interview in November, 1992, Mr. Ahlqvist said that the infrastructure of the retail trade depends upon the national and business culture. Adopting the approach of one company by another is not always easy. In practice, one seeks suitable joint projects. Fewer such projects were undertaken within ERA than the partners expected. The attitudes of the three partners in the co-operation project diverge. Mr. Ahlqvist considers that the attitude of the three concerns to ERA corresponds to that of their governments towards European harmonisation. For instance, Argyll wants to see co-operation result in lower costs, while Ahold is satisfied with "soft savings", the learning process. Mr. van Gent put it in the following way in November, 1992: "In ERA it is more a matter of learning from than doing things with one another".

Mr. Ahlqvist said that all the partners had hoped to be further on after three years than they actually are. In the past, a merger was seriously considered but the added value of such could not be discovered. They did indeed examine one another closely but the operating philosophy and priorities differ widely. For example, Casino's main aim is expansion on the home market.

In principle, further firms could become members of ERA. They would have to adhere very closely to Ahold, Argyll and Casino concerning approach to consumers, suppliers and culture (see the criteria). In view of the stagnation in the present co-operative association, it is not obvious that new firms will join. The future of ERA is not clear.

Chapter 4: Associated Marketing Services (AMS)

ESTABLISHMENT

The three ERA partners set up a loose association in 1989. To that end, the already existing Ahold firm Ahold Marketing Services, established in Zug, Switzerland, was re-christened Associated Marketing Services. Via ERA, the ERA partners each took a 20% share in AMS and were the founder members. The remaining 40% are open to other participants; at present there are eight of them, each essentially holding a 5% share.

AMS was set up only a few months after the establishment of ERA. The idea behind it was that the partners felt that, besides close co-operation in commercial strategy, there was also a need for less far-reaching international co-operation. In AMS the partners are much less closely linked together and "less sensitive" information is exchanged. They do not hold shares in one another as the ERA partners do. Hence the members of AMS can exhibit greater differences between themselves in the policy pursued, provided that there is no conflict with the purposes of AMS.

PARTNERS

Besides the ERA partners Ahold (NL), Argyll (GB) and Casino (F), ICA (S) and Migros (CH) joined AMS. They were quickly followed by Kesko (SF) and Dansk Supermarked (DK). Later came La Rinascente (I), Mercadona (E), Hagen-Gruppe (subsequently Hakon) (N) and Allkauf (D). The latest member to join in late 1992, was Pingo Doce (P). Migros is, moreover, "only" an associate member as the firm may, by its constitution, undertake no operations outside Switzerland. Although this point is under discussion, Migros does not have a 5% share in AMS. These 5% are "blocked" and, according to an agreement, Migros has the same voice as the other members.

Behind the scenes, the choice of the partners is solidly based. A while ago there was talk of the admission of the German Asko. As it was found that Asko, under the management of a former head of Ahold, had, without Ahold's knowledge, obtained a 12% interest in Ahold, the latter would no longer have anything to do with the firm. The participation of Asko in AMS was blocked by Ahold, with the support of Argyll and Casino.

A second skirmish took place in 1991. Dansk Supermarked is seeking acquisitions in Germany. According to the AMS agreements, that is not intrinsically strictly forbidden, but it is not supposed to be done. Dansk had never concealed the fact that it was seeking acquisitions or joint ventures in countries like Britain and Spain. Dansk Supermarked withdrew quietly from AMS in 1991.

Table 4.1: Basic data on AMS partners, 1991 (operations in Europe)

	Turnover (1000 M NLG))	Number of shops	Market share %	Staff
Ahold	9.6	1,138	28	48,500
Allkauf	6.0	235	1	9,000
Argyll	13.8	819	12	67,600
Casino	13.7	2,785	3	47,000
Hakon	2.1	264	12	4,000
ICA	21.0	3,223	25	18,600
Kesko	12.5	3,445	22	27,400
Mercadona	2.5	125	2	10,300
Migros	13.0	541	20	70,500
Rinascente	6.4	696	1	16,000
Pingo Doce	0.5	40	7	
TOTAL	101.1	13,311	--	309,900

The partners differ quite considerably in absolute size and domestic market share. The selection criteria to be met in order to join AMS are:

- the same culture, co-operation must be possible;
- the same consumer approach;
- the same supplier approach.

There was also an unwritten selection criterion: to be admitted as a partner, the candidate must have a leading position on the domestic market (among the top 3). In view of the composition of AMS, this criterion has since been abandoned. Only Ahold, ICA, Kesko, Migros and Rinascente meet it. The degree to which the market relationships vary from one country to another is clearly shown by La Rinascente's position. With a share of 2%, this firm is one of the market leaders. Argyll, with its 12%, is not. In Italy only 30% of food is bought in supermarkets. The lion's share is taken by small, independent local shops. In other countries this proportion is exactly the reverse; in the Netherlands supermarkets hold 70% of the market. It was originally intended to take a Belgian partner into AMS[9]. This has not yet been done. Moreover, there are as yet no partners in Austria, Ireland and Greece. Negotiations were conducted in Austria at the end of 1992 concerning a possible new member.

PURPOSE

The purpose of AMS is "co-operation with producers and suppliers of branded, own-branded or unbranded goods and services in order to identify opportunities for improving the entire delivery chain, reduce the cost of goods and services and take part in the yields from this co-operation"[10].

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9 AMS members in the European Economic Area, 11.12.1989

10 AMS Marketing Service AG's information leaflet

The expression "combined marketing" has been coined for this purpose, implying that there is a situation from which both the producer/supplier and the dealer can benefit, a "win-win" situation. More specifically, it means:

- purchase and marketing of brands in general;

- purchase and marketing of own brands;

- purchase from production facilities of one of the AMS partners on behalf of one or more of them;

- development of joint brands and products.

AMS is solely directed towards the producer-retail trade relationship. In the food trade, the cost price is, after all, some 75 to 80% of the sales price. Reductions in the cost price is therefore extremely profitable. This is certainly true in the development of a new product. This is virtually no longer possible for a single purchaser. The production cost price is too high for that. The joint development of a new product increases sales and thus the cost price falls.

METHOD OF OPERATION

AMS AG is established in Zug, Switzerland. Only three people work at the office there, the manager and two secretaries. There are another 22 directly involved with AMS. They are marketing co-ordinators with administrative support at the various partners. Essentially, the marketing co-ordinators work full-time for AMS. They have direct access to the participating firms in the fields of marketing and purchasing.

AMS has an Advisory Board on which all the partners are represented. This board decides on the projects to be implemented and their sequence. If a decision to implement a project is taken, a project group is formed within AMS consisting of purchasing officers in that field from the various partners. The management is in the hands of the marketing co-ordinators. At present there are six of them, specialising in:

- vegetables, fruit, tinned foods, ready-prepared meals and pet foods;
- dairy produce and soap;
- foodstuffs in general;
- beverages, luxury goods, stationery;
- non-food products;
- import, transport/sea freight.

Participation in these projects is voluntary. The project group collects the information required, draws up a plan and implements it. A project may involve a single product or a complete range. The participating purchasing officers remain responsible for what the project group can produce as an advantage for their firms. AMS deals solely with consultations with the supplier resulting in a sample contract with a validity generally of between one and two years. Price, delivery conditions and the like are negotiated separately by the participating partners.

The participating firms siphon off a part of the financial advantages accruing to them to AMS on the basis of a predetermined bonus. After deducting costs, AMS distributes the income thus obtained among the participating firms in proportion to their participation.

FIELDS OF OPERATION

AMS has defined the fields below for the development of initiatives:

1. **Development of existing operations**
   Product groups decide on possible joint stimulation.

2. **Delivery co-ordination**
   Agreement on the time of delivery and the purchase of raw materials to make production more efficient.

3. **Co-ordination of promotion operations**
   Joint action in suppliers' promotion campaigns. Thus Coca-Cola was able to mount the same campaign on the eve of the Olympic Games in Barcelona in 13,000 European supermarkets. The firm was prepared to make the necessary payments for access to this extensive distribution network.

4. **Introduction and market surveys for new products**
   Exchange of survey results for the introduction of a new product. This means that the same survey does not have to be conducted in every country separately.

5. **Standardisation of products and packaging**
   Standardisation makes it possible to increase the volume of purchases and thus obtain advantages of scale.

6. **Introduction of suppliers to new markets**
   Research into the opportunities for the introduction of products existing on one market into another market via an AMS partner. This feature is found to be highly attractive for suppliers to launch off with AMS.

7. **Distribution co-ordination**
   Plans are being drawn up to set up a European distribution system interlinking the establishments of all the members. It should thus be possible to reduce the total transport costs.

8. **Development of marketing and promotion material**
   Investigation of the development of joint material like racks, sample packages and the like.

9. **Own brand development co-ordination**
Research into whether own brands can be standardised and included elsewhere in the range. This also applies to the development of new products under an own brand.

10. **Supply of raw materials for own brands**
Assistance in seeking suppliers of raw materials and packaging materials to reduce the cost of own brands.

11. **Assistance in production and distribution**
Increasing the efficiency of production, supply and the delivery times of own-brand suppliers.

12. **Stocks**
Striving for "just-in-time" deliveries so that stocks throughout the chain can be kept to the minimum.

13. **Management of temporary shortages in supplies**
Overcoming temporary hitches in the delivery of products.

14. **Forum for retailers and suppliers**
Establishing a forum in order to develop attitudes towards consumer affairs and technological developments on behalf of the entire foodstuffs and groceries sector.

ACTUAL OPERATIONS

One of AMS's first operations was the publication of a brochure concerning itself. The brochure was aimed at suppliers of products and goods to explain to them the advantages of co-operation with AMS. The main operations of AMS concern the conclusion of overall contracts with a wide range of suppliers. Meanwhile, more than 100 such contracts have been concluded with suppliers. They include:

- **dairy products - cheese**
  * for Camembert and Brie with a small French firm.
  * Edam, Maasdam: a Dutch producer.
  * Danish MD Foods for seasoned cream cheese. Supplied to Safeway, AH, Casino.
  * with Danish Tholstrup for fetta and blue cheese. Supplied to Safeway, AH, Casino.
  * contract with Zanetti and Ferrari, both Italian firms, for grated cheese.

- **milk products**
  * Candia (France) delivers to Casino, Rinascente and Mercadona.

- **potatoes**
  * contracts for deep-frozen potato products with Aviko and Farm Fruits, both Dutch concerns.

- **wine**
  * contracts with 25 wine suppliers like Bodega Age (rioja) and Bodegas Felix Solissa, both from Spain, the German Peter Mertes Gruppe and Listel and Yvon Man (Bordeaux), France.
- **fish**
  * Thai Union Manufacturing Company supplies tunny to ICA and Kesko.

- **coffee**
  * AMS Coffee Trading, a co-operative between Marvelo, ICA Rosti and Kesko OY Roastery has been set up. It collects knowledge about the purchase of green coffee (from the Colombian Coffee Federation among others), transport and packaging material.

- **other foodstuffs**
  * contract with Stimorol chewing Gum (Denmark) for chewing gum.
  * Hipp (Germany) makes own-brand baby foods for Kesko.
  * H&C Cereals (France) makes breakfast cereals, e.g. cornflakes, for Casino, Kesko, Rinascente and Argyll.

- **pet foods**
  * Loven (Denmark) has a contract together with a Belgian partner.
  * SCC Safari (Franco-Belgian collaboration) supplies a new line of pet foods for Casino, Migros, AH.

- **toiletries**
  * contract with Henkel (Germany) for the entire product range (soap, washing conditioner, etc.).
  * Danlind (Denmark) makes chlorine and phosphate-free detergents for AMS. This is sold as an own brand product by AH and Kesko.

- **stationery**
  * contract with the American Kimberley Clark for kitchen rolls.
  * Scott paper supplies own-brand items and Scott brands to AH, Casino, Allkauf, Mercadona, La Rinascente and Safeway.
  * Prod'hygia (France) makes Bébé Ultra compact disposable nappies for AH, Allkauf, Casino, Mercadona. The design is by Eljee Dispack in collaboration with AMS partners.

- **household goods**
  * Danish Raadvad supplies pots, pans and knives to Allkauf and Casino.
  * contract with Philips Lighting (Netherlands) for lamps and batteries.

- **packaging**
  * Migros and AH have developed environmentally-friendly film for meat products.Produced by Windt (Netherlands) and IPI (Italy). Safeway, ICA, Kesko and La Rinascente are about to test this film.
  * Extrufix (Denmark) makes packaging bags for vegetables for AH, Kesko, Migros, Casino, ICA and probably Safeway and La Rinascente.
  * Unibag (Denmark) supplies paper carrier bags.

- **miscellaneous**
  * AMS is working on a standard till code for flowers and plants.
  * there is a project group for information systems as an extension of ERA operations in this field.
  * project group for computer and fax paper and till rolls.

DEVELOPMENT

Whereas the marketing power of co-operation in a unifying Europe was stressed on the establishment of AMS, the sights are now set far lower.

Expectations of European unity and a European common market are not as high because unification is running into problems at the political level which are only intensified by the current monetary crisis.

It was never thought within AMS that Europeans would soon be acquiring the same eating habits. Nevertheless, the theme of the possibilities of AMS, as expressed, for instance, in the publications "AMS Newsletter" and "AMS News", tended strongly that way. AMS was an important step towards supplies to the "Euro-consumer". That Euro-consumer, however, does not exist at present and thus the openings for a Euro-own brand are strictly limited. The AMS "Euro-cream cheese" (the seasoned cream cheese produced by the Danish MD Foods), widely introduced into the Netherlands, is therefore sold by only a few AMS partners. The same applies to the "Euro-nappy" and "Euro-kitchen paper". This shows up the openings for and limitations of a Euro-product. A small number of products has been standardised to a fairly considerable extent, making it certainly possible to introduce them on a European scale. Many others, however, differ to such an extent that the most that can be achieved is, for example, a degree of standardisation in format and packaging. Hence there is no European product; what, then, are the advantages of AMS?

The most obvious ones are the advantages to the producers. For many of them AMS is a welcome step towards the opening up of new markets. Penetrating new markets is often an expensive and time-consuming business. A contract of co-operation with AMS can make a distribution network and many thousand points of sale in a new market available. A second advantage is the scale of the product to be sold. The AMS agreement on the Euro-seasoned cream cheese allowed MD Foods to set up an additional production line for this product, a step which would never have been economically viable for an individual customer.

A third advantage is the opportunity to conduct a European promotion campaign. Reference has already been made to Coca-Cola's Olympic Games campaign. Competition on the foodstuffs market makes it ever more necessary for the production firms to enlarge the scale. An extensive distribution network is an important component here.

What are the advantages for the retail trade? They certainly seem limited in the short term. Of course, the scale also gives cost advantages to the retail trade as well. AMS makes no agreements on prices -- that is done by the members concerned -- but for a supplier there are undoubted advantages in concluding an overall contract with AMS. Rising output means a falling cost price per item for the producer. This advantage comes partly back to the AMS members. The method of operation is such that some of the cost advantages to the producer must be paid to AMS in the form of a fee. In its turn, AMS pays this out to the participants in the project concerned. The retail trade also reaps advantages from having new or adapted products made to a specification. In the battle for control of shelf space, the retail trade chalks up a considerable victory.

Other advantages may arise from a more efficient use of the distribution channels. It is perfectly feasible for a lorry from southern Europe taking products to northern European supermarkets to make the return trip carrying northern European goods for sale in the south. That does require careful and complicated planning. That stage has not yet been reached.

It is even more difficult at present to make many advantages "hard". Even worse, operations for AMS create tension for its members. AMS seems to be trying to expand the product range while there is all too little shelf space in the shops. It could, however, be an advantage that the products developed within AMS have a better chance of success through the combination of marketing data. Of the newly introduced products, an average of 95% soon disappear again.

Chapter 5: A look at the future

5.1 GENERAL

On paper, the co-operative associations ERA and AMS provide opportunities for extensive co-operation and joint projects. The consequences of this are radical at both staff and management levels.

Current practice is rather different. Work can be done within ERA and AMS in many more fields than at present. Whether that will actually happen in the future depends upon the commitment and attention of the partners concerned. At present, most of Ahold's partners appear to have other priorities. ERA partners Argyll and Casino are concentrating very much more on strengthening their position on their domestic markets. This is far less essential for Ahold since, with Albert Heijn, it is undisputed number one on the Dutch market.

It is not only market conditions which prevent extensive co-operation on the European plane. Most supermarket chains have realised that the "Euro-consumer", if he or she exists, can be found for only a limited range of products. It has already been pointed out in Chapter 2 that the composition of the consumer's shopping basket differs widely in the various European countries. This, together with the differences in market conditions and structure, make joint operations on the European scale virtually illusory.

There is therefore nothing strange in the fact that ERA and AMS are largely stuck in pretty schemes and potentials. The potentials were and are still great. In the past, the ERA partners even talked about a merger or the joint takeover of firms. This is unlikely to happen. The firms appear too different and the added value of a merged firm is too limited.

To obtain a view of the possible consequences of the activation or otherwise of the co-operative associations, two scenarios are examined in the rest of this chapter.

Scenario I is based on the assumption that co-operation will remain on a low flame. Participants take advantage of initiated projects but influence on their own strategic operating policy remains minimal. This scenario is close to present practice.

Scenario II is one of maximum co-operation with great changes for all concerned. Where co-operation and integration is possible it is done. This scenario goes a very long way but does not lead to mergers. In the maximum co-operation scenario, all the firms involved give priority to the co-operative associations. Based on the aims, that can have far-reaching consequences primarily for the ERA partners, although the necessary requirements for that must be met. That means, for instance, that Argyll and Casino reduce their concentration on their own domestic markets and Ahold puts Czechoslovakia on a back burner.

The potential of AMS is somewhat less but here, too, firms will become very closely associated.

5.2 SCENARIO I: MINIMUM CO-OPERATION

In the context of ERA, this means the joint conclusion of insurances, the joint purchase of shop fittings, etc. In addition, the partners take a close look at one another. One firm may learn from another's experience. These operations provide cost advantages. The maintenance of ERA gives a signal to other large supermarket chains and other European co-operative associations: we can form a bloc, don't think that you can just walk over us. ERA is an important party on the market. Outsiders know that when you are talking to a member of ERA, two others are listening.

In AMS, one or two-year agreements with producers continue to be concluded. Besides the cost advantages this also issues a signal: producers, we are a bloc, pay attention to us. Acquiring strength in the face of the producers gives proportionately the most to the small AMS partners, but even Ahold of course wants to make itself strong at the expense of Unilever, Coca-Cola and other major producers. The struggle for shelf space is keen. Ahold prefers to choose itself what is put on that shelf rather than to leave it to the producers. The joint manufacture of a cream cheese, for example, outside the giants may be regarded as a firm warning to the major producers.

Continuing on the present track leads hardly or not at all to changes in shop formulae nor to harmonising the partners' production operations. It is theoretically possible within AMS to conclude contracts with firms competing with one of the partners' production facilities. This is avoided as far as possible, while, in addition, partners are free to make use or not of a contract. The consequences of the minimum co-operation scenario on staff are thus also slight. Ahold alone has created some extra posts for the Eurodesk and AMS co-ordination; the lines between the partners have become shorter; joint purchasing has provided cost advantages.

The minimum co-operation scenario does affect the supply of information for the trade unions and co-partnership bodies. They have so far been poorly or moderately informed -- and at a late stage -- of developments in this context. The trade unions and co-partnership bodies will have a hard job to change this situation. Certainly if European co-operation remains on a low gas it will be difficult for them to wield a stick. Nevertheless, this situation means that there is much less need to be informed of the developments in detail. It will often be hard to show whether a new development within Ahold may be attributed to European co-operation or internal dynamics.

5.3 SCENARIO II: MAXIMUM CO-OPERATION

The effects of this scenario are radical and affect the whole conduct of business. This is shown specifically through the points below:

- strategy and organisation;
- production;
- own-brand policy;
- shop formula;
- purchasing;
- distribution and logistics;

- shop closing and working hours;
- co-partnership;
- staff effects.

Strategy and organisation

A joint Eurodesk is set up staffed by people from all the ERA and AMS partners. This new Eurodesk is given far-reaching terms of reference. It is run by three members of the boards of directors of the three ERA partners. Investigations are set afoot into the best form of integration in as many fields as possible. Integration must be a fact within two years.

An investigation is made to see whether a structure can be imagined in which the new Eurodesk can take over other supermarket chains on behalf of all the partners. To start with, thought is given to joint takeovers in eastern Europe. At a later stage, consideration is given to a form of combining the interests of the partners in the USA and to joint operations and takeovers there.

The aim of the new Eurodesk is to ensure that, in 2010, the ERA and AMS partners together are the prime factor in the retail food trade throughout Europe.

Members of the boards of directors are exchanged or become directors of other partners. A joint approach to the domestic market is reached. A start is made on developing an international career development path, and rising managers (Euro-managers) undergo training periods with one or several partners.

Production harmonisation

There is the greatest overlap in production facilities between Ahold and Casino, although Casino is in the course of getting rid of as many production units as possible. In the maximum co-operation scenario, Ahold and Casino decide to cut out the remaining overlap.

After studies and tests, it is decided, on the basis of marketing considerations (which country has a large market for a certain kind of product), that, for example:

- wine will be bottled by Les Chais Beaucairois and Marvelo's bottling plant will be shut down;
- Imperator will provide the meat products and Meester will be shut down;
- Marvelo will make the sweets, etc., and SAF will be shut down.

In a second round the other partners will be involved. This results in the closure of Kesko's and ICA's coffee roasting facilities. Marvelo will also roast the coffee for the Scandinavians. At the same time, Marvelo loses some of its sweet production to Migros' plants in Switzerland.

The net result of these reorganisations is a rise in jobs at Ahold's production plants. The closure of some production facilities is offset by expansion at the others. This expansion is the result of an increase in capacity by the taking over of the capacity of Casino and Kesko/ICA.

A consequence of this exchange is the outbreak within ERA and AMS of a lively discussion of the strategic importance of in-house production facilities. Most partners have already dismantled their own production plants. It is finally decided to leave the decision to continue in-house production firms to the individual partners. New products developed within AMS are initially offered to the AMS partners' firms provided that they can supply at a competitive price.

Own brands

The ERA and AMS partners introduce jointly developed own Euro-brands. These gradually replace some of the original firms' own brands. The selection is made on the basis of the brand concerned. Pasta products come from Italy and chocolate from Switzerland.

The Euro-label also covers jointly developed products on the market for which third parties are the producers.

The share of own brands in the total range increases greatly. The development of own Euro-brands is regarded as an important strategic weapon against independent foodstuffs producers and to increase the firms' own margins and hence yield.

Shop formulae

Close co-operation in the field of shop formulae develops. Casino's hypermarket concept is followed by the partners as a model for southern Europe. Safeway's specialised supermarkets are taken as the model for northern Europe.

Besides the names Albert Heijn, Safeway and Casino, the logo of the Euro-chain appears on each shop door. The AMS partners are gradually involved in this project and a European chain is formed. Separate publicity is issued for this Euro-chain. Euro-shops guarantee good quality and service. Their added value lies primarily in the wide range made up of the lines of all the partners. The shops are supplied via a special European distribution system with, for instance, fresh paella, Irish beef steak, fresh pasta, etc.

The opportunities for mounting campaigns directed at local preferences or occurrences does not disappear, but is greatly limited.

Purchases

Joint buying becomes one of the central operations. More co-operation is possible, for example, in meat purchasing. Albert Heijn has four central butcheries (CBs) distributed over the country (Zaandam, Zoetermeer, Groenlo and Eindhoven). The CBs now buy expensive northern Irish meat (Greenfield) directly which is delivered cut up and deep-frozen in large vacuum packs. Joint purchasing within ERA and AMS gives a considerable cost advantage. Another buying-in market, e.g. the French one, is also broached. Industrial meat (for processing into mince and sausage) is bought under ERA and AMS auspices. It is not expected that the permanent suppliers of Albert Heijn in the Netherlands will be approached to supply ERA and AMS partners too because their capacity is too small.

It is known that people from Safeway visited the central butchery in Zaandam in February, 1992, and that people from this CB visited a supplier of the British supermarkets.

The joint purchase of meat from one or more suppliers would mean purchasing expansion and cost reduction. The consequences of that on jobs at the central butcheries would be minimal. More consequences for staff are to be expected from an adaptation of the meat distribution system of one partner to another.

Distribution and logistics

The ERA partners decide to set up a distribution network covering Europe. This project is extended with various AMS partners. In the network, all partners obtain control of single distribution centres of vital importance, according to form and content. Shops are supplied in accordance with the composite idea. The entire structure is aimed at ensuring the greatest possible flexibility.

The results of all this are drastic. Firstly, the European distribution network. An integrated computer system makes it possible to combine deliveries with return freight. To optimise this planning most products are carried in containers garaged at a few central depots in Europe by disconnecting the tractors. Other tractors take the freight onwards.

Secondly, the distribution centres (DCs) where the loads are delivered. The partners run one or more strategically located DCs. The other DCs are handed over to the management of third parties to lower costs and at the same time provide the best possible position in distribution.

Thirdly, delivery to the shops takes place by the composite system to which the DCs must be adapted. Fourthly, delivery itself is made by lorries which are mostly the property of third parties. Contracting transport out increases flexibility and also reduces costs.

Automation

Discussions on the acquisition of equipment has already spread from ERA to AMS. EPoS and ETFPoS equipment is developed in co-operation and supplied to specification. Various partners start two experiments. Firstly automated weighing/ payment equipment is developed. Secondly, a customer card is developed by means of which payment may be made directly even in foreign partners' shops. Argyll agrees to increase its efforts to encourage customers and staff to convert to giro or bank payments.

Shop closing and working hours

The far-reaching harmonisation and integration of operations exerts considerable pressure for the harmonisation of working conditions and requirements. For the Netherlands this means increased operating times, firstly by extending daily opening hours and secondly by Sunday opening. The ERA and AMS partners wage a co-ordinated campaign for the desired extension of working hours. However, they do not do this in isolation but as a part of a broad employers' front directed at the adaptation of labour legislation.

The extension of working hours is accompanied by further flexibilisation of staff numbers. Besides a core staff becoming relatively smaller, a large number of part-time and casual employees is taken on.

Co-determination

The combination of the various operations leads to a large number of reorganisations. Trade unions and co-determination bodies are initially more closely involved in the developments. This involvement can result in a considerable influence if unions and co-determination bodies succeed in reaching agreement with foreign colleagues. Agreements are made on the manner and conditions in which a change with results for more than one country can be implemented. This international orientation is all the more important because subsequently a considerable part of trade decisions will be taken at that level. A number of problems arises here.

Firstly there is still no conclusive legislation concerning co-determination in Europe. Argyll is the leader within the retail food trade in trying to ensure that no legislation is decided which gives the employees an international voice.

Secondly, control over and influence in industrial life is hampered by the changing organisational structure. A large number of operations is contracted out or performed in firms where each partner holds only a minority share. Formal control is thus made difficult.

Consequences for staff

The various projects have far-reaching consequences for the staff of the ERA and AMS partners. The most drastic quantitative consequences for the Ahold staff are a result of the change in production, purchasing, automation and distribution. In 1991, about 1,250 people were working in the production plants and 957 in the fresh centres/central butcheries. 2,125 people worked in distribution in Albert Heijn and another 672 worked in the vegetable/flower centres.

The purchasing people are more scattered but there are several tens of them. Several hundred work on the tills.

As has been said, the results for the production units are rather a shift than a reduction in jobs.

Purchasing and distribution will shed the necessary jobs. The same applies to till staff.

With regard to production staff, Kesko/ICA's coffee roasting plant will be shut down, as will a number of Casino's various production facilities. Casino's meat products works and various of Migros' production plants may increase their capacity.

The consequences for the purchasing, distribution and till staff is sensible in all ERA and AMS partners.

5.4 CONCLUSION

It is no accident that the minimum co-operation scenario is closest to reality. It has been stated in detail earlier that market structures and consumer habits vary widely within Europe. A sign here is the closure of Casino's coffee roasting works, ready-prepared meals plant and confectionery unit. In all three fields Casino looked for and found an outside supplier without going to Ahold. From Ahold's viewpoint it is more likely that most attention will be paid to expansion in eastern and southern Europe and the United States and possibly Mexico. For eastern Europe the Czech plans will probably be terminated or continued with a third partner. For Ahold and other firms, ERA and AMS are good opportunities for keeping a finger on the European pulse, remaining in contact with European competitors and taking advantage of joint projects. The contacts and co-operation which can now be built up may in future be of great importance for a more offensive strategy in Europe. The maximum scenario does not at present seem realistic but, if necessary, could become so within a period of a few years. In any event, Ahold's international operations will increase only in extent. This is all the more reason for employees to make cross-border contacts now and take the first steps on the road towards joint action. The regular holding of sector meetings on the European scale is a good example of this.

EURO-FIET

ORGANISATION RÉGIONALE EUROPÉENNE DE LA FÉDÉRATION INTERNATIONALE DES EMPLOYÉS, TECHNICIENS ET CADRES
EUROPEAN REGIONAL ORGANISATION OF THE INTERNATIONAL FEDERATION OF COMMERCIAL, CLERICAL, PROFESSIONAL AND TECHNICAL EMPLOYEES
EUROPÄISCHE REGIONALORGANISATION DES INTERNATIONALEN BUNDES DER PRIVATANGESTELLTEN

29 DEC. 1993

President:
Karel Boeykens, Belgium

Regional Secretary:
Philip J. Jennings

SOMO

Circular No. 189/TSC/fg
Geneva, 16th December 1993

To all EURO-FIET commerce affiliates

cc: UFCW, U.S.A.
SDA, Australia
JUC, ZENSEN, Japan
NUDAW, SACCAWU, South Africa

Subject: ERA - European Retail Alliance

Dear Colleagues,

Please find enclosed a copy of a study on ERA, carried out by SOMO on request of DIENSTENBOND.

With best regards.

Yours sincerely,

P J Jennings

Regional Secretary

Enclosure

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SECTION II

ERA PARTNERS

AHOLD

GENERAL

Koninklijke Ahold NV is a retailer and producer mainly of foodstuffs which it supplies to shops and establishments in the Netherlands and the USA. The best known and largest chain of shops in the Netherlands is Albert Heijn. Others include Gall & Gall (off-licences) and Etos (chemists). In the USA Ahold owns four supermarket chains: BI-LO, Giant Food Stores, First National Supermarkets and Tops Markets.

Ahold's turnover in 1991 was almost 21 thousand million, with slightly under half arising in the Netherlands. Net profits amounted to 276 million NLG.

At the end of 1991, some 100,000 people were employed by Ahold, while the average over the year, converted into fte, was nearly 63,000 staff members, with nearly 36,000 working in the USA. 51.6% of Ahold's employees in the Netherlands are women.

HISTORY

1887-1920 At the age of 22, Albert Heijn takes over his father's grocer's shop (12 m2) in Oostzaan. Albert Heijn looks after purchasing while his wife sells the products to the customers. They later move the shop to Zaandam. Albert Heijn starts up two bakeries.

1920-1940 Albert Heijn (AH) buys a restaurant in Amsterdam, starts up a cocoa and chocolate factory, starts packing tea and coffee and buys a small dairy. In 1927 there are 107 AH branches.

1940-1945 The number of branches increases by 21 to 252 during the war.

1945-1970 Ahold becomes an NV (= plc), takes over the van Amerongen groceries, starts up with supermarkets, works together with a large bakery, opens a new dairy, centralises stocks at a distribution centre in Zaandam and opens off-licences under the name Alberto.

1970-1992 Ahold starts up and closes the Miro hypermarkets, buys competitor Simon de Wit and Etos, has a supermarket chain in Spain from 1976 to 1985 and, in the USA, buys BI-LO (1977), Giant Food Stores (1981), First National Supermarkets (1988) and Top Markets (1991), opens a new coffee works (Marvelo), buys mass consumer Kok-Ede, James Telesuper, Schuitema, Gall & Gall and Impodra off-licences, de Tuinen health food stores, opens a national distribution centre in Geldermalsen, builds a regional distribution centre/fresh foods centre/works for Marvelo in Zaandam, converts Pharmatos into Pragmacare (pharmaceutical operations) and sells the Ac Restaurants and Ostara holiday parks.

Position on the domestic market

Ahold is one of the largest concerns in the Netherlands with a dominant position in the retail sector. Albert Heijn's market share rose by 0.4% to 26.3% in 1991. This increase may be ascribed to the enlargement of the sales area and growth in franchise operations.

In addition, Ahold has a 73% holding in the Schuitema wholesale organisation. In 1991 the market share of the independent supermarket operators linked to Schuitema (C 1000, Spar, Kopak, Casper) was 9.6%. Thus with Albert Heijn and Schuitema together, Ahold holds nearly 36% of the retail food sector. On the European scale, however, Ahold's market share is only 1.2%.

As a result of the purchase of Impodra, Gal & Gall's market share rose from 17% in 1990 to 21.5% in 1991. This makes Gall & Gall by far the largest off-licence operator in the Netherlands.

Fields of Operation

Koninklijke Ahold's operations consist of:

1. Retail trade in the Netherlands;
2. Retail trade in the USA;
3. Foodstuffs industry;
4. Bulk consumers;
5. Miscellaneous.

(See the appendix, table 1, for a survey of all Ahold's shops and the number of employees (m/f) in 1991.)

Retail trade in the Netherlands

The turnover from all of Ahold's retail trade operations in the Netherlands was 9.5 thousand million in 1991. This turnover was achieved by 23,854 employees (fte) in 1,138 establishments with a total sales area of 463,000 m2.

- 7.6 thousand million or 80% of Ahold's total retail trade turnover in the Netherlands originates from its own Albert Heijn branches (i.e. without franchises). Albert Heijn's sales area amounts to 417,000 m2, or 90% of the total. AH's turnover per square metre in 1991 was 18,800 NLG.

See the appendix, table 2, for some basic data on Albert Heijn (1987-1991) and table 3 for the breakdown of the total number of Albert Heijn's staff per trading division.

Albert Heijn has a market share of about 26%. In the near future AH intends to set up supermarkets in parts of the country in which the shop concern is not yet so strongly represented (south, north-east and a few cities). In addition, Albert Heijn has decided to open 15 to 20 megasupermarkets in cities over the next five years. The first enlarged AHs are in Tilburg and Zaandam; others are to be opened successively in

Zwolle and Amsterdam Buitenveldert. According to the new chief Andrae, there will eventually be room in the Netherlands for 20 to 30 of these megastores.

The Fresh Company, a luxury shop with attractively presented fresh products, delicatessen and ready-prepared meals, is not successful. There were four of these shops, but they were reduced to one (Koningsplein, Amsterdam) in May, 1992. The remaining shop is also the oldest (1988). It is the only profitable one. The closure of the other three cost 100 jobs, and other posts within Ahold are being sought for those concerned.

In its efforts to offer more fresh products, Albert Heijn is also taking advantage of a new development in the packaging industry. Fresh and cooked fish can be packed in a gas mixture in which the product will keep for up to a week.

James Telesuper, the remote shopping firm started up in 1983, became a member of the Albert Heijn organisation in 1991. A year earlier it had moved over to AH's range. It employs 148 people.

January, 1992, saw the opening in Geldermalsen of a new AH national distribution centre (DC) at a cost of about 100 million, at which 450 employees work in eight production teams. It is equipped for the national distribution of articles with a somewhat longer turnover rate involving some 6,000 grocery and non-food items. In future, suppliers like Sorbo will be able to deliver their goods to this DC instead of directly to the AH branches. The shops will be able to order these items more often and in smaller quantities. There will henceforth be two or three deliveries a week instead of one. About 120,000 of the 720,000 parcels are processed using computer-controlled carroussels. This now applies to 1,800 items. The rest are dealt with by conventional means. Space has been provided for more automated operations for up to about 3,000 articles. The some 1,600 fast-moving grocery and non-food items are still sent from the three regional DCs, i.e. Tilburg, Zaandam and Zwolle. The eleven fresh food centres distribute products like fruit, vegetables and flowers to the shops. A new DC will be set up in Zaandam in 1993 so that vegetables and meat can be despatched in one load.

In 1991 Albert Heijn employed a total of 43,626 people, including 22,688 women (52%). 2,125 of these employees work in the DCs, 957 in the fresh food centres/CSs and 672 in the vegetable/flower centres.

* Besides Albert Heijn's own branches there have, since an experiment in 1981, been franchised shops under <u>AH Franchising</u>. The turnover of AH Franchising in 1991 was 941 million NLG (an increase of about 18% over 1990), produced by 130 shops. In 1991 the Association of Albert Heijn Franchise Holders set up a starters' fund to provide loans of up to 150,000 NLG to new shopkeepers working on the AH system (for up to 3 years). The initial capital of the fund is 600,000 NLG and will be helping three starters in the first year. Albert Heijn wants to increase the number of franchised shops further but at a slower rate than over the past ten years.

Ahold special businesses currently include Gall & Gall, Etos, de Tuinen, Pragmacare and ter Huurne. The concern has got rid of the Ostara holiday parks and AC

Restaurants (in 1987 and 1989 respectively). The operation of gift shops has also been abandoned. In 1991, a total of 2,771 people were working in Ahold special businesses.

* Ahold started up its own off-licences under the name Alberto. In 1988 Ahold bought two important competitors, Party Shops and Bols' Gall & Gall. The drinks businesses were integrated under the name Gall & Gall. The Impodra off-licences (70) which had been taken over were added to Gall & Gall in 1991. After the takeover of Impodra, Gall & Gall has a market share of 21.5%.

Gall & Gall's DC in Zoeterwoude has been converted (completed in March, 1992) to cope with the 25% higher turnover produced by the takeover of Impodra. Beer and minerals deliveries, however, are contracted out to other suppliers.

Gall & Gall is currently by far the most important of the Ahold special businesses. Its turnover in 1991 was 452 million NLG, there are 330 shops and it employs 695 fte. The average turnover per square metre is 19,800 NLG. The firm now also has 21 franchise holders.

In 1991 Gall & Gall employed a total of 1,216 people, 552 (43%) of them women.

* In 1973 Ahold bought a supermarket and chemist's co-operative, Etos. Ahold introduced the discount formula in 1974. The Etos chemists' shops are not doing as well as Ahold would like (although the turnover and market shares are rising and a profit is indeed being made). Turnover in 1991 was 234 million and there were 152 establishments employing 1,200 people or 814 fte. Most of the employees are women (90%) and almost half of them work part-time. The average turnover per square metre is 12,000 NLG.

For a few years now Etos and Cosmo (hairdressers) have had a co-operative association. Cosmo hairdressing salons are established on the first floor of all properties rented by Etos. A assessment made meanwhile shows that this is not running to Etos' satisfaction. Cosmo does reap advantages from it but not Etos.

The Etos beauty case formula differs depending on the local market situation. There are also 22 Etos franchised businesses, and Etos is going to grant more franchises in the future.

In 1991 Etos Belgium numbered 19 businesses which were still running at a loss. In 1992 Etos Belgium is having to co-operate more closely with Etos Netherlands. In the latter country, too, the Etos shops will have to co-operate more. A stop has been put on the ordering of individual shops: branches must first sell their own stocks by working together. Etos is reducing stocks in other ways as well. Thus Etos wants to introduce smaller ordering units and some suppliers of more expensive items are delivering to the central DC. In 1991 Etos employed a total of 1,285 people, 1,155 (90%) of them women. Etos Belgium has 106 employees, including 102 women (96%).

* In 1991 Ahold took over the seven de Tuinen health stores. The number of branches has since increased to 10. The aim is to have about 40 within 5 years. In 1991 de Tuinen employed 63 people in all, including 59 women (94%).

* In 1988 Ahold took over the pharmaceutical whosesaler Pragmatics in Duiven. The operations were brought into the Ahold organisation Pharmatos. The Apothekos, a combination of Etos chemist's and pharmacy (after the example of Boots in Britain) did not take off; it remained stationary at 4 establishments. In 1991/1992 the name Pharmatos was changed to Pragmacare. In 1991 Pragmacare moved from Duiven to Velp where a new head office and DC were started up. Deliveries are made from Velp to almost 70 chemists, the 152 Etos chemist's shops and the Trekpleister chemists. Pragmacare wants to improve logistics so that the shops receive deliveries only once a day. The orders are loaded at night and taken to the shops by third parties (contracting out); express deliveries are sent by courier.

The turnover and operating result improved in 1991. Pragmacare's turnover is about 80 million and is thus number four on the market after OPG, Brocacef (ACF) and Interpharm. The current market share is about 3 to 4%, but Pragmacare is aiming at a share of 10 to 15% of the total medicament market (about 4 thousand million) in the Netherlands. While the competition must have it in the margin on wholesale prices, Pragmacare is trying to set up a retail chain, with franchising not excluded. It is trying to raise turnover by seeking co-operation with a number of chemists and, where possible, taking other wholesalers over. In addition, Pragmacare is trying to increase "over the counter" (OTC) products, i.e. medicaments available without prescription.

In 1991, Pragmacare had 91 employees.

* The formula of the Ter Huurne border shops was changed in 1991 (fewer products but those aimed more closely at the German customer). The result has fallen slightly. In 1991 ter Huurne had a total of 339 employees, 187 (55%) of them women.

* By 1991 the "De Hoop op d'Swarte Walvis" restaurant had been in existence for 25 years. It made a record turnover and a good result. 33 people worked there in 1991.

Retail trade in the USA

In the eastern USA Ahold's retail trade operations in 1991 made a turnover of 10.5 thousand million NLG from 492 establishments with a total sales area of 902,000m^2. They employ 52,479 people or 35,964 fte. Almost 48% of the employees are women. Only a handful of people work at the head office of Ahold USA in Parsippany, NJ. In turnover, Ahold is 7th on the list of the largest food retailers in the USA and also one of the 50 largest foreign investors in that country.

* In 1977 Ahold bought BI-LO on the eastern seaboard for an estimated 160 million NLG (8 times the profit); the chain had then 96 supermarkets with a turnover of nearly 1,000 million NLG a year and 5,600 employees. The chain initially developed slightly less quickly than Ahold hoped; a great deal was invested in it. In 1988 BI-LO bought 21 supermarkets from the Kroger Company. Ahold announced that 1991 was a splendid year for BI-LO. Turnover rose to 3 thousand million NLG and the trading result also increased. With ever lower prices and an ever wider range, BI-LO has succeeded in improving the margins.

The average number of fte dropped by 160 to 10,304. There is a total of about 14,000 employees, 45% of them women. As BI-LO is having difficulties obtaining staff, members of the staff who can find a new colleague are given a reward.

At present BI-LO has 178 establishments. A massive investment programme started in 1990, leading by 1991 to the complete modernisation of 75% of the supermarkets. The rest of the shops are to be rebuilt or moved over the next three years. In 1991 six shops were opened, 7 closed and 8 existing ones refurbished. BI-LO has managed to increase its market share in a number of fields. Work is still continuing on a new shop layout. In the new version the deli/bakery department will be placed immediately at the entrance to the shop.

In 1991 the sales area of the BI-LO supermarkets amounted to 337,000 m2. The turnover per square metre was 8,983 NLG.

At the end of 1992 there are to be a total of 188 BI-LO supermarkets employing about 16,000 people in all. Much is expected in 1992 of the new line of health and beauty products introduced in 1991.

* At the end of 1981 Ahold bought discounter Giant Food Stores (GFS) Inc.in Pennsylvania, probably for 74 million NLG (10 times the profit). Giant then had 31 supermarkets with a turnover of about 741 million NLG and 2,051 employees (fte). Giant is running according to Ahold's expectations and sometimes even better. It extended its operations in 1984 to a fourth state (Virginia). Most trade union actions seem to occur in this one of Ahold's chains. In 1990 Giant introduced both Finast's own brands (of sister concern FNS) and the Green Mark for environmentally friendly products. Giant/Martin's shops had more than 600 Finast products in 1991. In that year there were two supermarkets with a bank branch in the shop; this number will probably be increased. Experiments with a pharmacy in the shop are also on hand.

In 1991 Giant opened a new DC for fresh products like meat, fish and delicatessen. There are two tanks with a capacity of 1,000 fresh crayfish.

At the beginning of 1991 Giant made a start with Shoppers' Express, a service delivering telephoned orders to the customer's home; Giant is the first in its market sector to provide this service.

Another innovation is VideOcart, a small display screen on shopping trolleys giving customers information on offers, recipes, the location of articles and some entertainment for customers waiting at the cash-out. As the customers push the trolley around the shop they obtain continuous information on articles in that part of the store. Giant has introduced VideOcart into a new shop in Harrisburg.

In 1991 Giant achieved a turnover of 1.9 thousand million NLG in 55 establishments with a total sales area of 134,000 m2. It employs 5,769 people (fte) or nearly 10,000 employees in all, 48% of them women. The average turnover per square metre is 14,411 NLG (and thus the highest of the four American chains).

* At the beginning of 1988 Ahold took over the American supermarket chain First National Supermarkets (FNS). It first obtained an 80% interest from owner-manager Bogomolny for an estimated 400 to 500 million NLG, later obtaining the remaining 20%. Finast was number 15 on Ahold's list of candidated for takeover in the USA. At the time of the takeover, Finast had 122 supermarkets (Finast, Edwardsand Pick'n Pay) with a turnover of 3.2 thousand million NLG and 15,000 employees (or 11,000 fte). Finast's turnover is almost as high as those of BI-LO and Giant combined. The Finast supermarkets are in a region bordering on that of BI-LO and Giant.

Ahold is investing a great deal in the new acquisition. It immediately began a programme gradually to replace the neighbourhood shops under the name Pick'n Pay (1,500 -- 2,000 m2) by the large Finast supermarkets (minimum 5,000 m2). The Edwards shops (4,000 - 5,000 m2) are being modernised.

Besides the own brand Finast, the own brand Sensational (products including pasta, sauce, oil, coffee and tortilla chips) was introduced in 1991. In addition, Finast has "ground lean beef" with a vegetable stabiliser ("carrageenan") halving the normal fat content of beef and containing 40% fewer calories.

Currently Finast is laying more stress on non-traditional product groups like flowers, non-food, fish and freshly prepared ready meals. There are also bank branches and chemists' in various Finast shops.Ultra-modern refrigertion plants and computer-controlled fruit ripening chambers are to be found in the new DC in Cleveland.

Finast claims that it is reducing staff turnover with BASICS (Be A Star In Customer Service), a programme putting good teams and individuals in the limelight.

Finast has two divisions: Eastern (Connecticut, New York, Long Island, New Hampshire and Massachusetts), with 56 Finast supermarkets and 12 Edwards shops, and Ohio, with 35 Finast supermarkets and 6 Pick'n Pays in 1991. The two operating areas are some 800 km apart.

Finast's turnover in 1991 was about 3.7 thousand million in 109 establishments with a total sales area of 271,000 m2. It employs 12,075 fte or a good 16,000 people, 48% of them women. The average turnover per square metre was 14,223 NLG (187 NLG lower than in 1990). The first available figures for 1992 show that Finast has suffered more from the economic recession that the other three chains.

* In March, 1991, Ahold bought one of the 25 largest American supermarket chains, Tops Markets Inc., Buffalo. Ahold took all the shares over for 234 million NLG and the debt of 608 million NLG. Tops then had 59 large supermarkets (superstores) under the name of Tops Freindly Markets, 76 smaller supermarkets under the name Wilson Farms convenience stores (shops with a limited range where customers in a hurry could shop quickly) and 10 neighbourhood shops called B-Kwik, all in the centre and west of New York state. In 1990 Tops made a turnover of around 1.8 thousand million NLG ($1 thousand million) and a trading result of 67 million NLG.

In the last three quarters of 1991 Tops Markets achieved a turnover of 1.8 thousand million NLG ($960 million). Of this, 234 million came from 23 Tops franchised shops and the rest from its own 127 stores. The total sales area of Tops Markets was 160,000 square metres. The turnover per square metre was 13,475.-- NLG. They employ about 12,000 people or 7,186 FTE; 52% of the employees are women.

In 1991 Ahold's largest shop (and probably the largest in New York state) was opened: a Tops International (Super Centre) of 11,000 m2 with 60,000 items from various countries. The emphasis is laid on fresh products. In this superstore, open around the clock seven days a week, many dishes are prepared on the spot. This store has the largest in-store bakery in the USA. There is also a "tortilleria". The dishes may be eaten in the shop itself in special "eating areas" or taken home. Customers seeking hints on the preparation of meals can go straight to the cookery school in the store. There are 35 tills and 350 people work there.

In April, 1991, Tops opened a large new cold store from which deep-frozen products are sent to all the shops. The firm has a good name in the field of deep-frozen goods.

In 1991 Tops had two "deep discount" drugstores (a shop formula directed towards a specific group of products) under the name Vix.

The programme for 1992 includes the opening of four Tops superstores and at least seven Wilson Farms. In addition the number of Vix drugstores is to be increased.

* Ahold wants the four American subsidiaries to work together and is also looking for ways of transAtlantic co-operation. Almost 20 collective groups have been formed in which each chain has its representative. What is sought are ways of merging purchasing, distribution, personnel policy, publicity, management information systems and insurance. What is being sought is not only cost saving co-operation between the sister enterprises but also such economic projects with third parties.

There are different purchasing groups. For instance, the purchase of shrimps in the central states of the US is grouped. Another firm result is the use of Tops Market's Vix' "deep discount" formula by its sister firm Finast: Finast Ohio recently opened such a Vix drugstore in Cleveland. Marvelo roasts the coffee of four new brands under its own label "Sensational" which has been sold in Finast and Edwards shops since May, 1992.

* At the beginning of 1992 Ahold announced that there would probably be another takeover in the USA that year.

Foodstuffs industry

The turnover of Ahold's foodstuffs industry in 1991 was 606 million NLG, including 69 millions' worth of sales to third parties. The average staff numbers were 1,516 (or 1,417 fte). *See appendix, table 4, for the number of employees (m/f) in Ahold's production plants in 1991.*

* Marvelo is Ahold's oldest production plant, set up in 1911. Marvelo has seven product groups: coffee roasting, tea packing, wine bottling, peanut butter and nut spread manufacture, sweet vermicelli production, liquorice making and salted peanut packing. Many of AH's own brands are produced. After years of growth, Marvelo's sales stabilisied in 1989, largely owing to competition from the A brands. In the autumn of 1989 Marvelo, together with AH, renewed its range of coffees. In 1990, again together with AH, the firm introduced a new range of peanut butter, chocolate spread and chocolate vermicelli. 1990 was a very good year for Marvelo. In 1991 its volume turnover was under pressure, partly owing to the shift in bottling operations (sherry) to Spain.

In 1991 Ahold announced that Marvelo was also going to make products for its European partners[1].

Marvelo is to move in 1993 to a new factory in Zaandam on the North Sea Canal. There, two new coffee roasting plants will be commissioned.

In 1991 Marvelo employed a total of 242 people, 52 (21%) of them women.

* The butchery J. Meester was founded in Wijhe in 1847. The works was bought in 1966 by Albert Heijn BV. Until 1975 the plant was called Albert Heijn Vleeswarenfabriek BV. In 1975 Ahold changed the name to Meester Wijhe or just Meester. Initially, Meester supplied its 120 or so meat products to Ahold firms but later began deliveries to third parties. It exports to Belgium, Germany, the UK and, since 1981, the USA.

In 1989 Meester introduced meat products packed in a low-oxygen atmosphere on a national scale. The 1989 turnover was virtually the same as 1988's: the trading result was lower on account of rising raw material costs. In 1990 both the turnover and the result improved. Exports to the USA stagnated owing to the weak dollar. However, the export of cooked ham and low-oxygen-packed meat products to the UK flourished. The turnover rose slightly in 1991, mainly because of the increased sales of low-oxygen-packed meat products. The trading result was slightly below that for 1990. Meester began "streamlining" production in 1991. Meester employed a total of 870 people in 1991, including 214 women (25%).

* In 1988 Ahold took a majority holding in Nistria, a producer of diet meat products with a turnover at that time of around 1 million and with 53 employees. Satisfactory turnovers were achieved in 1989 and 1990, partly owing to collaboration with Ahold bulk consumer (supplies to hospitals and nursing homes). The result was much under pressure in 1990. Sales rose in 1991 but the trading result remained the same. In 1991 a total of 79 people worked at Nistria, 36 (46%) of them women.

* In 1958 Albert Heijn BV bought the Hoeve Bros. bakery in Zwanenburg. The name was subsequently changed to Albro Bakkerijen Zwanenburg. Initially, Albro supplied all AH branches with wrapped factory bread. Changes in consumer tastes made it change over to freshly baked bread. AH establishments obtained permission to buy this fresh bread in their own areas. In 1972 Albro

[1] Ahold USA Newsletter, Fall 1991

began baking bread, cakes and pastries in a new factory in Tilburg (with a production line from Zaandam). It began producing deep-frozen tarts in 1976. In 1981 Albro bought a licence from the USA for a new process for making deep-frozen tarts ("Freeze Flo" method).

Albro is currently a leader in (second-generation) "bake-off" products: bread products, already risen and pre-baked, needing only brief baking in the shop itself. It has a patented method of deep-freezing semi-finished products. Albro supplies "bake-off" dough not only to Albert Heijn but also to bulk consumers, including KLM. Moreover, it has granted a licence to the local suppliers of BI-LO and Finast to allow these American Ahold supermarkets to use the "bake-off" process. The increasing sales of deep-frozen dough led in 1989 to the opening of a new deep-freeze bakery in Zwanenburg.

In 1989 Albro equalled 1988's good result. Its turnover increased slightly in 1989 and in 1991 both turnover and trading result rose significantly. In 1991, Albro employed a total of 267 people, including 48 women (18%).

* VACO, the supplier of ready-prepared meals established in Geel, Belgium, improved its turnover in 1989 but lagged in 1990. VACO supplies both Ahold firms and third parties. In 1989 and 1990, meals in single-person packs were developed. These products were introduced in Belgium in 1990. In 1991 Albert Heijn included the ready-prepared meals in its range. AH has been selling the single-person meals with varying degrees of success. VACO's staff in 1991 totalled 61 of whom 44 (72%) were women.

Bulk consumers

Grootverbruik Ahold (GVA) supplies foodstuffs and other products to institutions, industrial canteens and the catering sector.

Over the past few years GVA has taken many firms over and also sold some. The most important takeover was that of its strongest competitor, market leader Kok-Ede BV, in 1985. In 1986 followed the takeover of Instel BV (coffee, tea, soup, etc., for automatic dispensers). The distribution operations of Kok-Ede and Albert Heijn Grootverbruik were integrated in 1987. In 1990 the sales operations of both firms were integrated under the name Kok-Ede Grootverbruik. As a result of the grouping, the operations of Albert Heijn Grootverbruik were shifted from Breukelen to Ede. The Ede stores were extended by 9,000 m2. In 1990 the non-food distribution centre was moved from Waalre to Ede. All GVA's distribution operations were centred in Ede, and this process is likely to have been completed by the end of 1992.

The fresh foods organisation was restructured in 1990: the result was a national network of fresh food centres from which a complete range of fresh foods can be delivered to customers. In the same year problems arose in the transition to a new logistic system. The fresh foods system is likely to be further reorganised in 1992.

GVA's turnover rose in 1990 but the trading result was unsatisfactory. In 1991 the turnover rose again to 691 million NLG but the trading result was negative. A decision was taken in 1991 to undertake a further reorganisation in which about 100 employees became redundant. 75 of them found work elsewhere (whether inside or outside Ahold; a solution to the position of the others was being sought in 1992. What is intended is to integrate the operations between the sections of the firm. Kod-Ede Grootverbruik, Instel and the catering group (Horeca Inkoop Centrale, Evers Horeca Totaal) must work more closely together. The supporting activities like production, distribution, administration and automation are to operate centrally under the name GVA. In 1991 GVA employed about 1,200 people *(see appendix, table 4).*

Miscellaneous

Ahold's other interests include:

a. Euronova in Czechoslovakia;
b. Shares in Argzll and Casino;
c. Schuitema;
d. Luis Paez;
e. Ahold Vastgoed;
f. ABS Development Company.

Euronova is temporarily under the financial responsibility of Ahold Netherlands. The other interests are not consolidated. The trading results of the non-consolidated interests rose to 44.3 million NLG in 1991.

a) In 1991 Ahold set up Euronova, in which it has a 51% holding, to run shops and distribution centres in Czechoslovakia. Ahold wants to invest 70 million NLG at the most in the operation (40 million in cash and 30 million in expertise via the Eurodesk). By the end of 1991 Euronova was running three distribution centres acting as wholesalers at the same time and nine shops, three of which were converted to Mana supermarkets (Jihlava, Zdar, Sazavou). Initially the Mana shops have a range of about 1,100 items, more than in other Czech shops. Ahold is hoping to be able to buy even more stores through the process of privatisation. It is prepared to make considerable investments only if it can be sure that a substantial number of shops is available. The eventual intention is to have about 300 to 400 shops (of at least 400 m2) and 11 to 12 distribution centres. (See also under "Internationalisation".)

b) Since 1989 Ahold has had a 1.6% holding in Argyll and one of 4% in Casino, while Argyll and Casino each have a 3.8% holding in Ahold. In 1991 the shares in Argyll and Casino yielded Ahold 7.7 million NLG in dividends.

c) Since 1988 Ahold has had a majority holding in the wholesale organisation Schuitema, taken mainly for fear of its takeover by the domestic competitor Unigro. In 1989 Ahold extended its interest in Schuitema from 55 to 63% and in 1991 from 63 to 73% In 1991 the Schuitema group consisted of 546 supermarket enterprises working with the formulae C 1000, Spar Voordeelmarkt, Kopak and

Casper among others; the total market share is 9.6%. Both Schuitema's turnover (2.6 thousand million NLG) and its net result (28 million NLG) prospered in 1991. Ahold justifies this interest as participation (73% of 28 million = 20.4 million).

d) In 1989 Ahold's 50% holding in the sherry bodegas of Luis Paez in Jerez, Spain, were still under Ahold Foodstuffs Industry. Since 1990 it has been under "non-consolidated interests".

In 1989 the trading result increased for virtually the same turnover. In 1990 the result fell as a result of considerable reserves in Jerez. Despite a lengthy strike in the region, the result for 1991 was better than in 1990. In 1991 Luis Paez acquired a 10% interest in the Williams & Humbert bodega, producer of sherry (Harvey's) and brandy; one of the other shareholders is Bols.

e) In 1991 Ahold's real-estate companies merged into Ahold Vastgoed BV for fiscal reasons. This group deals with the development, operation, leasing and re-leasing of shops and shopping centres on behalf of both Ahold companies and third parties. The net result in 1991 was 20.6 million NLG.

f) The real-estate operations in the USA are under the ABS Development Company in which Ahold has a 50% holding. In 1991 this holding was temporarily increased by 17%. Owing to running-in costs, the result for 1991 was negative.

ECONOMIC PERFORMANCE

The figures

Koninklijke Ahold is making strong progress. Turnover virtually doubled in six years (1986-1991). During that period the trading result and the net profit doubled. Great surges forward in turnover were made between 1987 and 1988 (turnover climbed from 11.7 to 15.3 thousand million NLG) and between 1990 and 1991 (from 17.5 to 20.8 thousand million NLG). This explosive development is largely due to the takeovers of First National Supermarkets and Tops Markets. In 1991, Ahold's investments covered 248 million NLG in the Netherlands and 831 million NLG in the USA.

The takeover of Tops pushed solvency down in 1991 from 34 to 24%. Ahold's leaders see no reason yet for a fresh issue. Interest payments virtually doubles from 71 million in 1990 to 139 million NLG in 1991. The interest burden will rise even further because the ambitious investment programme for 1992 (930 million NLG) is higher than the cash flow (about 730 million NLH). In 1992 Ahold's investments in the USA were about 562 million NLG and in the Netherlands 350 million NLG. *(See appendix, table 5, for some of Ahold's essential data (1986-1991).*

Figures per activity

The first three quarters of 1991 were difficult ones for the Netherlands. AH's contribution for the whole of 1991 finally remained the same as that for 1990 and GVA suffered a loss. The trading results of the American establishments, however, rose. The changeover took place in 1991: for the first time, Ahold's turnover in the retail trade was higher in the USA than in the Netherlands, 10.5 against 9.5 thousand million NLG. Things become even sharper if we look solely at the retail food trade. In the USA, almost all of Ahold's turnover of 10.5 thousand million NLG came from the sale of supermarket goods, whereas the equivalent figure for the Netherlands was 8.6 thousand million NLG (Albert Heijn and Albert Heijn Franchising together). The Dutch total retail turnover of 9.5 thousand million NLG still includes those of Etos, Gall & Gall, miscellaneous and services. Ahold US' trading result was also higher than that of Ahold Netherlands, 274 as against 193 million NLG in 1991. This trend is likely to continue unless the low dollar puts a spanner in the works. Tops' 1991 figures progressed only over three quarters. Grootverbruik Ahold (GVA) and Levensmiddelenindustrie Ahold (LIA) lagged well behind in terms of turnover with 691 and 606 million NLG respectively in 1991.

Staff

Ahold's staff numbers have risen sharply, mainly through takeovers. The total number of employees has nearly doubled over the past five years. The arrival of the 100,000th employee was celebrated in 1991; the figure in fte terms is about 62,000. (See appendix, table 6, for the variations in staff numbers per activity from 1986 to 1991 inclusive.)

The relative staff distribution per activity in 1991 was (first a percentage of the total, then of the fte figures):

- Retail trade NL 45 (37)
- Retail trade USA 52 (57)
- Foodstuffs industry2 (2)
- Bulk consumer 1 (2)
- Central operations0.5 (1)

The figures under "retail trade NL" relate mainly to staff working for Albert Heijn. The average number of fte in the retail food trade in the Netherlands (i.e. Albert Heijn and Albert Heijn Franchising) in 1991 was 21,476 (90% of the total). Ahold's trading result and net profits did indeed double between 1986 and 1991 but the number of employees did not quite double. In 1991 the number of employees in Ahold's retail business in the USA rose above that in the Netherlands for the first time. Even more, Ahold employs more people in the USA than overall in the Netherlands (supermarkets plus production, mass consumption and central services). This abolishes the commitment for Ahold to remain a structural partnership. Nevertheless, Ahold has informed the central works council (COR) that it will not abandon the structural partnership form over the next two years. In terms of turnover per fte, where productivity is higher, in Ahold's retail trade in the USA or in the Netherlands? In 1991 the turnover per fte in Ahold's American retail business was 292,682 NLG and in the Dutch one 398,466.-- NLG. If we consider only the retail food trade, the Netherlands appear in an even more favourable light with a turnover per fte of 399,609 NLG. There is thus a difference of about a ton in favour of Dutch productivity, and even when it is claimed that more customer service must be provided in the Netherlands than in the USA. The takeover of Tops Markets does seem to have improved the productivity of Ahold's American retail trade interests, for in 1990 the figure was 285,060 NLG. Thus Ahold's Dutch retail trade is found to be substantially more productive than the American. Moreover, productivity in the Netherlands is still on the increase, for in 1990 it was 394,300 NLG. However, the rate of productivity increase in the American retail trade interests is slightly higher than in the Dutch ones. *(See appendix, table 7, for the development of productivity (1986-1991) in Ahold.)*

STRATEGIC BUSINESS POLICY

Ahold has grown considerably over the past few years, partly through takeovers. The Board of Directors wants to continue on that path: "Ahold is still interested in acquiring or taking shares in high-grade retail businesses in the USA and Europe" (1991 annual report). The strong orientation towards the USA is shown by the fact that almost two thirds of the approximately 900 million NLG investment scheduled for 1992 is to go to the United States and 350 million NLG in the Netherlands. Ahold intends to buy a fifth chain in the USA in 1992 or 1993. In the middle of 1992 Ahold acquired a large minority holding in Pingo Doce in Portugal; further takeovers in Europe are not unlikely (see also section 5). Ahold is to double its 1991 size by 1997. Its target is a turnover of about 40 thousand million NLG and a net profit of some 500 million NLG in 1997. Over the next few years it intends to lay the stress on cost saving. This can mean that it will not always be possible to attain the natural cycle. In its 1991 annual report, Ahold sets out its view of the 'nineties concerning consumers in supermarkets and innovations. Concerning clientele, Ahold expects to see in the supermarkets in the 'nineties a more marked difference between older customers who continue to read offers in advertisements and younger ones who want information via electronic channels. In addition, the older customer makes purchases at a different rate and frequency from the younger one; both regard the shop as a social meeting place.

In the Board's view, the customer will always be able to watch TV broadcasts from Albert Heijn or Finast at set times. Small video screens on shopping trolleys in the shops will provide information for the consumer (see VideOcart at Giant). A screen outside over the entrance will do the same. Manufacturers are examining whether to advertise in the shop. Regular customers take a "smartcard" with which they pay and which shows suitable information about them (e.g. the make-up of the household and preferences). In addition, customers will start ordering by telephone or fax. They will appreciate a wider range of goods and personal service.

Shop staff will be trained by interactive CDs. There will be satellite communications between Ahold and customers, head office and supermarkets and retailers and suppliers. Ahold will need more staff trained in the efficient use of electronic communications. Ahold finds it difficult to obtain staff for reasons of youth, aging, low pay and special working hours and the moderate to poor image of the retail trade. In the '90s Ahold intends to try to attract women returning to work after a period of absence. In addition, the Board wants to keep older employees on for longer (hence lower VUT). There is still a rapid turnover, especially among part-timers (57.5% of the staff of Ahold Netherlands and 58.5% of Ahold USA in 1991). The firm wants to gear staff policy more to the group (youngsters, older people, women, men, part-timers, full-timers) rather than operating a collective personnel policy. Labour agreements should, in the Board's view, be given more the nature of a frame within which firms may differentiate. Moreover, the senior management wants to give individual rewards for individual performance. Motivation is to be increased by facilitating financial participation. For years Ahold has tried to reduce sick leave without much success. Personnel manager van Dun attributes this partly to the prolongation of maternity leave from 12 to 16 weeks. Ahold is going to have to invest a great deal in these new developments in the 'nineties.

Experiments with some innovations are already on hand. At the beginning of 1992 Albert Heijn concluded an agreement with Beanet (a subsidiary of associated banks) which was regarded as a breakthrough in electronic payments traffic. The Beanet system checks directly with the bank's computers on a transaction to see whether there is still enough money in the account. Albert Heijn made the agreement after Beanet had lowered its rates (from 26 to 21 cents per transaction); in addition, AH also, by guaranteeing that by the end of 1995 all the shops would be connected to the payment system and 45 million transactions would be made via the megnetic strip cards, obtained a two-cent discount. A test is now being run with Beanet in one AH branch. A further test is being held in 1992 in 27 AH branches. Sortly afterwards, however, Albert Heijn introduced a test (not with Beanet) on a new AH customer's card in branch 1131 in Schagen also facilitating electronic payment. This customer's card making use of microchip technology, for which the consumer is required to pay 10 NLG, shows the purchasing power which the consumer still has on the card. It is also possible to save points on the card for free offers. Each payment is stored in the automatic till which deals with them all in a great stream at the end of the day. Up to a thousand guilders a month may be paid, to reduce the risk to AH and the banks. For this test AH is receiving a subsidy of 350,000 NLG from the Treasury. At the beginning of 1992, Albert Heijn launched the AH regular customer fund, a savings and investment fund for AH's regular customers and employees in the Netherlands. Already about 30% of AH's customers or a million people by stamps (for ten cents on every guilder spent). For 49 NLG worth of savings stamps the customer can receive 52 NLG in cash. Now that the fund has been set up, an A unit in the fund can be taken instead of cash in exchange for three stamp books. The A units can be surrendered at any time to fund managers Pierson, Heldring & Pierson (who are to merge with Mees & Hope) against their face value less 1%. The units are nominal and cannot be sold to third parties. Besides the A unit for three stamp books, employees may also obtain a B unit to the value of 147 NLG; Ahold gives a 10% discount on the purchase price. Each employee may obtain a maximum of three B units a year. They cannot be cashed until after three years. Ahold's aim with the fund is to increase customer loyalty, spread the holding of shares and distinguish itself from its competitors. In addition, with the fund, the firm supports the share value and can obtain cheaper loans. The initial capital is 50 million NLG, provided by the Heijn family (which has a 7.66% holding in Ahold via Het Weerpad BV) and the Ahold pension fund. Eventually it is expected that there will be hundreds of thousands of participants and a capital of 500 to 1000 million NLG, half of it to be invested in existing Ahold shares and the rest in loans on which Ahold will repay (only) the promissory note discount. At the end of August, 1992, there were 30,000 participants in the AH Vaste Klanten Fonds. When the fund was launched there immediately arose a difference of views between Andrae, AH's chief, and van der Hoeven of the senior management. The former considered that the fund was for AH customers only, while the latter claimed that the system was to be extended to the customers of Etos and Gall & Gall. The Consumers' Association would rather see AH not issuing stamps but reducing prices. AH's competitors like Edah and Dirk van den Broek dislike stamps (administrative costs and fuss) and concentrate on the price.

Ahold is trying to build up an environmentally friendly image. Since 1988 Ahold has had an environmental department. A few years ago Albert Heijn introduced a "green logo", a green AH symbol with a leaf attached. The intention was to inform the customer about products which were "better" for the environment. The ecology movement criticised AH because the green logo gave the impression that such products were completely "clean". The logo disappeared after six months. Ahold is trying to recycle packaging. Customers of AH branches can see this: they can buy plastic bags made from plastic waste collected in the shop. Gall & Gall's off-licences can return their stacks of cartons and waste plastic from pallets in travelling containers to the distribution centre in Zoeterwoude where the material is pressed and sold on to recycling firms. A test at the Tilburg distribution centre on collecting shrink-film and other plastics separately was abandoned. Now all plastic goes into the same container. Cardboard is also collected separately.

Chief Everaert is chairman of the Stichting Verpakking en Milieu (Packaging and Environment Foundation) which includes representatives of all firms having anything to do with the packaging chain (raw materials suppliers; producers of glass, paper, tinplate and plastic; food manufacturers; retail traders; waste disposal). Under pressure from threatening government measures, they are being urged to set up a master plan for suppressing packaging. According to Everaert, PVC carrier bags and cadmium can be eliminated immediately, but other changes will have to be spread over a ten-year period. In addition, the requirement now is to make waste compostable, but what is to be done soon with the excess compost?[2]

Environmental measures are afoot in Ahold's American subsidiaries, too. BI-LO, for instance, is taking steps to recycle about 50 million tons of cardboard, many tons of plastic and office paper and nearly 10,000 litres of motor oil (1990). Giant give the customers a choice between recyclable plastic bags (taken back by Giant itself),linen bags sold at cost price or cash repayments to customers who re-use their paper bags. Tops already has 17 years' experience in the recycling of cardboard; in 1990 14 million kilos were processed. Tops also has an interest in a firm operating in the field of drinks can recycling; every year Tops delivers about 160 million cans for re-use. Its customers make use of the "good news bag", a carrier made of old newspapers. In addition, Tops has developed "Refrigi-Kool", a system in the shop seeing to the recycling and re-use of power obtained from cooling and heating systems.

In contrast to the diversification policy of a few years ago, Ahold is now turning emphatically towards its nuclear operations, the sale of foodstuffs. The AC restaurants and Ostara holiday centres were therefore sold in the late 'eighties. Ahold is still continuing with its special shops and institutional activities.

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[2]NRC, 23 March 1991

Grootverbruik Ahold is regarded as of strategic importance. The 1989 annual report stated: "Eating out is expected to increase in in the 'nineties. The Dutch will more and more buy via other distribution channels than the retail trade, for instance the catering trade, institutions and works canteens: GVA's customers. If Ahold is to maintain its position in the food and consumption trade its share in supplies to the outside market will have to be increased. This means that GVA is of essential strategic importance to Ahold". Ahold is expecting an ever higher result from the production plants. It wants more than in the past to invest in production and distribution facilities. Ahold intends to turn more and more to franchising. Growth is expected in AH Franchise and also Gall & Gall and Etos. The senior management has given Etos time to put its house in order. Policy concerning Etos is the transfer of its own shops to franchisees. With its eye on the new stresses which Ahold wants to make, the tasks within the Board of Directors were redistributed at the beginning of 1992. Zwartendijk will now be responsible for the USA (and the Spanish bodega), Ahlqvist is concentrating on European expansion and is given charge of GVA and real estate in the Netherlands. Besides personnel policy, van Dun is now also responsible for the production plants. Van de Hoeven, the financial man, takes charge of Albert Heijn and keeps American real estate. European co-operation under ERA and AMS is shifted from Ahlqvist to Ahold's chairman Everaert.

INTERNATIONALISATION

In the past, Ahold has tried, with little success, to set up a supermarket chain in Spain under the name CadaDia (1876-1985). There were no further attempts to start up a supermarket chain in other European countries than the Netherlands until 1990. From that year Ahold tried to set up a chain in Czechoslovakia under the name Mana. The concern should first have taken over an entire chain of hundreds of state shops all at once -- the provisional agreement had already been signed. Under new privatisation plans, however, Czechs were given priority. Ahold then had to negotiate separately for each shop. There is also the problem that obligations which a shop proprietor had undertaken with regard to his tenant were not assumed by the new owner on the sale of the shop, leaving the tenant without protection. In its position as tenant, Ahold would not be readily inclined to make considerable investments in modernisation. Ahold said that it had 17 establishments in Czechoslovakia in November, 1992 (not all under the name Mana).If the figure of 40 is not reached by the beginning of 1993, Ahold will look seriously at the future of the chain, leading to a joint venture with another foreign investor or withdrawal. There are also in Europe a number of Etos stores (Belgium) and a share in a sherry bodega (Luis Paez) in Spain.

At the end of July, 1992, it became known that Ahold had entered into a joint venture with the Portuguese food producer and distributor Jeronimo Martins & Filho SA. It is called Jeronimo Martins Retail and runs 40 supermarkets under the name Pingo Doce, the market leader in Portugal. Ahold's holding is 49% but it is laid down that important decisions will be taken by consensus. (See further Jeronimo Martins Retail's profile.)

For a long time Ahold has been trying to find suitable firms for takeovers in Europe. As it was initially unsuccessful (the price was too high, according to Ahold), it took the initiative in 1989 of setting up a European co-operative association, the European Retail Alliance (ERA). Partners were sought in Britain, France and Germany.

In 1989 SHV (the parent company of Makro and partner of Metro) built up a 12% holding in Ahold in connection with proposed co-operation between Ahold and Makro. However, Ahold opted for co-operation within ERA with the French Casino and British Argyll concerns. SHV then put its 12% holding up for sale. It was bought by Asko Deutsche Kaufhaus of Saarbrucken, which wanted to exert pressure on Ahold to agree to co-operation. Ahold became angry and, with Casino's and Argyll's support, kept Asko out. For protection, Ahold temporarily issued preference shares which came into the hands of a foundation.

Ahold is the only one of the three partners to have set up a special organisation for European projects, the Eurodesk. In 1991 it employed about 15 full-timers but at present its attention is virtually solely devoted to Czechoslovakia because almost nothing is happening inside ERA.

Although actual purchase agreements have been made within AMS, this co-operation seems to be of less strategic importance to Ahold. The first AMS standardised products were put on the shelves in 1991.

Both Dienstenbond FNV and the Central Works Council were informed of the co-operation under ERA and AMS very late. They had to obtain important information about them from the (trade) press. Ahold's management has said that it will inform these parties earlier in future.

The withdrawal of Dansk Supermarked from AMS has made it easier for Ahold to make takeovers in Denmark. Within AMS the partners must inform one another if they become active on the territory of others, but such operations are not absolutely forbidden. According to Mr. Ahlqvist, a takeover in Denmark is not the first priority in view of the local distribution position[3].

In 1991 chief Everaert announced that takeovers in France, Britain and Germany were excluded[4]. Ahold was, however, interested in firms in Italy and Spain. Everaert openly said that he would like to take over AMS partner Mercadona in Spain[5].

Everaert finds further expansion in Europe and North America necessary because otherwise Ahold would lose ground on the market. Major takeovers can be financed only by share issues[6].

Ahold has been successfully operational in the American retail trade since 1977, not through starting up its own chains but via takeovers. Since the takeover of Tops Markets, the fourth American chain, in 1991, Ahold has been stronger in turnover and staff numbers in the USA than in the Netherlands. Everaert, chairman of the Board of Directors of Ahold from September, 1989, to March, 1993, initially made his

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[3]Interview with Mr. Ahlqvist by Wibe Drijver and Marijke Smit, 16th November, 1992
[4]Volkskrant, 12th March, 1991
[5]Het Financieele Dagblad, 9th September, 1992
[6]NRC, 13th May, 1992

career in the USA with Ahold, among others, became a naturalised American and is heavily oriented towards the USA. Bogomolny,the retired head of First National Supermarkets, has been a member of Ahold's Supervisory Board since 1992. Everything points to Ahold's remaining strongly inclined towards the USA. The firm is expected to make a fresh takeover there in 1992 or 1993.

According to Everaert, even if 70% of the turnover is made in the USA, the concern's Dutch nature will be preserved: "We remain a Dutch enterprise with its head offices in Zaandam. We could also have gone to Monaco, but we're just simple grocers. We're not going to do that.".[7]

It became known in December, 1992, that Everaert would be moving over to Philips from 1st March, 1993. Ahold's new chairman of the Board of Directors is C.H. van der Hoeven who had been the board's financial expert since 1985. The international interests and fields of operation are divided among three of the four remaining members of the board. As from 1st March, 1993, van der Hoeven became responsible for ERA, Ahlqvist the Eurodesk, Euronova and Pingo Doce and Zwartendijk the American interests and Luis Paez.

[7]Het Financieele Dagblad, 9th September, 1992

CONCLUSION

With a turnover of 20 thousand million NLG and some 100,000 employees, Koninklijke Ahold is an important concern. The regional centres of interest are in the USA and the Netherlands. Ahold has recently become larger in the USA than in the Netherlands. It is still looking for suitable takeovers in both areas.

For three years Ahold has been co-operating on strategic policy in Europe with the British Argyll and French Casino concerns within ERA. The AMS organisation, heavily biased towards purchasing, includes eight retail food firms in as many other countries besides the ERA partners. It seems as though co-operation within ERA and AMS is progressing more slowly than Ahold had originally expected. At present, Ahold's foreign bureau, the Eurodesk, is devoting its attention more towards Czechoslovakia, where things do not seem to be running as expected.

A recent development (July, 1992) is the taking of a 49% holding in Pingo Doce, Jeronimo Martins' Portuguese supermarket chain.

Table 1

Ahold in the retail trade: number of shops and employees (m/f) per operating company, 1991

	shops	total staff	women %
Albert Heijn	578	43,626	52
James Telesuper	-	148	24
Gall & Gall	351	1,216	43
Etos NL	174	1,285	90
Etos Belgium	106	106 (sic)	96
de Tuinen	10	63	94
ter Huurne	2	339	55
BI-LO	178	14,632	45
Finast	109	16,482	48
Giant	55	9,308	48
Tops	150	12,057	52

Table 2

Essential data on Albert Heijn, 1987-1991

(turnover in millions; sales area in 1,000 m2; employees in average fte numbers)

	1991	1990	1989	1988	1987
Turnover	7,641	7,231	6,902	6,601	6,456
Establishments	448	444	443	452	446
Sales area	417	298	338	384	357
Employees	21,445	20,509	19,846	19,055	17,885

Table 3

Breakdown of the number of employees at AH by operations, 1991

	Number of employees
Albert Heijn	39,698
Vegetable/flower centres	672
Distribution	2,125
Fresh foods centres/CS	957
Albert Heijn Franchise	32
The Fresh Company	142
Total	**43,626**

Table 4

Number of employees (m/f) in Ahold's production plants, wholesale and bulk consumers, 1991

	total	women %
Albro	267	18
Marvelo	242	21
Meester	870	25
Nistria	79	46
Vaco Belgium	61	72
Pragmacare	91	
GVA	1,244	20

Table 5

Basic data for Ahold: consolidated turnover and results, 1986-1991 (in millions of guilders)

	1991	1990	1989	1988	1987	1986
Turnover	20,790	17,539	17,667	15,275	11,688	11,404
Trading result	467	362	313	283	234	230
Net profit	276	243	195	146	131	132

Table 6

Ahold staff numbers 1986-1991*

	1991 total/fte	1990 total/fte
Retail trade NL	45.258/23.854	41.958/22.280
Retail trade USA	51.572/35.964	40.243/28.181
LIA	1.516/1.417	1.419/1.353
GVA	1.260/1.150	1.228/1.133
Central operations	489/411	589/411
Total	**100.095/62.796**	**85.437/53.388**

	1989 total/fte	1988 total/fte
Retail trade NL	40.520/21.812	38.607/20.542
Retail trade USA	38.373/27.020	35.665/25.627
LIA	1.428/1.324	1.372/1.210
GVA	1.141/1.041	1.012/973
Central operation	207/186	227/207
Total	**83.140/52.188**	**78.854/49.520**

	1987 total/fte	1986 total/fte
Retail trade NL	39.985/19.111	32.879/17.645
Retail trade USA	18.399/13.302	15.472/11.282
LIA	1.195/1.066	1.151/1.035
GVA	3.247/2.048	2.828/1.759
Central operation	244/221	248/222
Total	**59.070/35.748**	**52.578/31.943**

* The totals for the various years are taken from the 1991 annual report and sometimes differ slightly from the addition of the numbers per operation. This is probably owing to the fact that only the staff of firms abandoned in that year are not included in the breakdown by operations whereas they are included in the grand totals. The differences occur in 1989 and 1988; 1989 shows 81,669/51,383, and 1988 shows 76,883/48,559.

N.B. Both the total numbers and the fte are averaged over the year.

Table 7

Productivity per fte at Ahold, 1986-1991 (x 1,000 NLG)

	1991	1990	1989	1988	1987
Turnover	331	329	339	309	327
Trading result	7	7	6	6	7
Net profit	4	5	4	3	4

ARGYLL

GENERAL

Argyll Group plc ("Argyll") is one of the leading retail food traders on the British market. It has grown considerably within a relatively short time. Its most important trade names are Presto, Lo-cost, Liptons, Cordon Bleu, Galbraith and Safeway. With the purchase and systematic expansion of Safeway, Argyll has climbed from the nethermost regions of the market to the topmost segment in which service, quality and product range are decisive. With its market share of 9.5% in 1990, it took fourth rank in turnover behind Sainsbury (16.8%), Tesco (13.1%) and Gateway (10.4%). However, with more than 800 shops the firm is indisputably at the top.

History

Argyll's recent development has been marked by the milestones below:

1978 Cavenham, James Gulliver's investment firm, buys a 29.5% holding in the wholesaler Morgan Edwards. This firm also has a chain of supermarkets.

1979 A 20% holding was obtained in Louis Edwards, a chain of butcher's shops in Manchester.

1980 This is the year in which the greatest stride forwards is made. Furniss, Cordon Bleu and Dalgety Frozen Foods are bought for a total of 12.3 million NLG[1]. Louis Edwards and Morgan Edwards, until then run as separate firms, are combined into one under the name Argyll.

1981 Food Retailers, Oriel and Patersons are bought for about 67 million NLG. Argyll enters the beverages market through the purchase of North West Vintners and George Morton for a total of 25.3 million NLG.

1982 Argyll acquires Pricerite and London Tea for a total of 11.5 million NLG and Allied Suppliers (with the Presto supermarket chain among its owners) for 350 million NLG. Barton Brands in the USA is bought for 75 million NLG. A programme is begun to take the Presto and Lo-cost chains out of the discount market segment.

1983 Further expansion through the purchase of Mainstop Stores and Pik'N'Save Stores for a total of 17 million NLG.

1984 Food Retailer and Amos Hinton are purchased for 91 million NLG.

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1 The basis used for amounts is an exchange rate of £1 = 3.37 NLG. This is the average rate for the period 1987-1991.

1985 Argyll tries to penetrate the beverage market further by a bid finally amounting to 9 thousand million NLG for Distillers. Argyll is, however, pushed out by Guinness in what was later found to be an irregular manner. In 1991 Argyll and Guinness reach an arrangement under which Argyll receives 337 million NLG by way of damages.

1987 Argyll withdraws from the beverage trade by selling George Morton (to Seagram UK) and Barton Brands (to the management), while at the same time getting rid of the food production plants. The firm remains solely in the retail food trade. A long stride in that direction is taken with the purchase of the British branch of the American firm Safeway Stores for 2.3 thousand million NLG. Ahold was also in the race for this chain. Safeway was being stalked in the USA by the Dart Group. It sought help in the arms of the investment bank Kohlberg, Kravis Robert & Co. To finance this, the British branch had to be sold. The purchase of Safeway virtually doubled Argyll's turnover and the firm entered the top market segment in one bound.

1988 James Gulliver resigns from the management of the firm and is replaced by Allister Grant.

1992 Argyll buys nine Grandways supermarkets in the Midlands and north-east of England for 63 million NLG.

Position on the domestic market

Argyll's development is not unique. The other large British supermarkets have done much the same. By and large, the most important developments in Britain from the mid-seventies may be summarised as shown below:

- in the second half of the 70s and the beginning of the 80s a fierce price war was being waged, partly owing to high inflation.

- the inflation rate fell after 1982, shifting the emphasis towards the quality of the product as a weapon against the competition.

- considerable concentration took place in the sector in the 80s, mainly via takeovers. Between 1985 and 1989 alone the market share of the five leading firms rose from 36 to 50%.

- the increase in the average shop area seems meanwhile (and temporarily?) to have come to an end. The centres of attention for the 90s are broadening of the product range (e.g. greater variety, natural foods), customer service, environmental matters (including recycling of materials, energy management) and increases in productivity through the use of new technologies (electronic points of sale, electronic funds transfer at points of sale).

Growth prospects for the market leaders must primarily be sought by expansion in areas where the firm concerned is under-represented. Most nationally-active supermarket chains are still relatively firmly attached to their original areas. For example, Sainsbury has no Scottish establishments at all and is only barely present in Wales.

The opening of new shops and the adapting of existing ones to modern requirements mean that the leading firms must make heavy investments in their supermarkets. The capital market has therefore been badly savaged by the issue of bonds and other kinds of loans. At the beginning of 1991 Tesco raised 1.9 thousand million NLG; Sainsbury borrowed 675 million NLG and "earned" a further 450 million NLG through sell-and-lease construction. Finally Argyll followed in May 1991 as the third with a bond loan of 1.3 thousand million NLG intended for the annual opening of 20 to 25 new Safeway establishments over the next few years.

Argyll's attention over the next few years will be largely directed towards its domestic market. Its strongest weapon in the battle with the market leaders is the Safeway chain which now provides 75% of the turnover. The relationship between Safeway at the high end of the market and Presto (middle) and Lo-cost (bottom end), however, has not yet clearly crystallised. Safeway and Lo-cost do complement each other in market fields but otherwise have less and less to do with each other. It seems that the Presto chain will disappear, with its larger shops converted into Safeway and the smaller into Lo-cost stores. In 1991 Argyll nevertheless decided to breathe new life into this chain.

FIELDS OF OPERATION

Supermarkets in general

Argyll mainly operates a number of supermarkets, the main ones being Safeway, Presto and Lo-cost. Here, the Safeway chain is by far the most important. In 1991 Safeway accounted for about three-quarters of Argyll's total turnover, operating result and staff.

The name under which Argyll runs its supermarket chains has undergone considerable changes. Until the acquisition of Safeway, Presto was the predominant formula. In 1987, 77 Templeton shops in Scotland, 49 Hintons in north-east England and 243 Liptons were converted into Presto shops. Only those with a very small floor area, 73 Liptons in 1987, were converted into Lo-cost stores.

With regard to market position, Lo-cost lies in the lowest range and Presto somewhere in the middle segment. This development changed with the acquisition of Safeway. The number of Presto shops fell sharply with the larger ones continuing under the Safeway name and the smaller becoming Lo-cost.

This development, too, altered in 1991. For the first time in years new Presto and Lo-cost shops were opened. Presto now seems to be a name into which new life is being breathed, especially in Scotland.

Number and area of Argyll shop chains, 1986-1992

	1992	1991	1990	1988	1988	1987*	1986*
number of shops							
Safeway	322	310	291	240	176	133	131
Presto	212	215	227	270	488	540	306
Lo-cost	285	298	320	353	288	207	200
Total	819	823	838	863	952	880	637
total floor area (000 m2)							
Safeway	661	598	469	316	220	209	
Presto	127	149	225	387	462	374	
Lo-cost	100	103	110	88	66	66	
Total	888	840	804	791	748	649	
average floor area							
Safeway	2134	2057	1958	1793	1650	1595	
Presto	494	660	836	792	858	1221	
Lo-cost	341	319	308	308	330	330	

*made comparable for the three chains mentioned.

Safeway

The first British Safeway establishments date back to the 60s. Over the years the firm has built up a good reputation in Britain, especially concerning the sale of fresh food, own brands, refrigerated goods and dishes to be made up by the customer him/herself. These are still the firm's most important product sectors.

Safeway's turnover in 1982 was a good 1.6 thousand million NLG. At the time of the takeover by Argyll it had increased to some 3.7 thousand million NLG, amounting at the time to 37% of Argyll's total turnover. Argyll withdrew 300 million NLG to convert the large Presto establishments into Safeways. The aim was to triple Safeway's sales area and turnover by 1991. In that year, Safeway's turnover of 11.8 thousand million NLG accounted for 73% of Argyll's and even for 78% of the operating result. The sales area had been expanded from 220,000,000 to 660,000 m^2: triple, but below the 750,000 m^2 target. The conversion programme was halted in 1991 and since then Safeway has concentrated fully on opening new establishments for which 300 locations in Britain has already been selected.

In 1991, 107 establishments, together making up 46% of the total sales area, were under 5 years old. Safeway is thus one of the most modern chains in the country.

With an average size of 3300 m^2, the new establishments are considerably larger than the average. The current flagship is the shop opened in Sutton in 1988, with a sales area of about 5,000 m^2. Here, the range covers 35,000 products, including 40 fresh salads and fresh pizzas, in which the garnish may be selected by the customers themselves.

Safeway's policy is directed at introducing ever more operations into the shops which on the one hand make them attractive for the customers and on the other to obtain wider margins than for "ordinary" operations. They may be divided into two groups: firstly the extension of the range and secondly the offer of related products and services. The first class includes the baking of fresh bread in the shop, which is done in 75% of the establishments. In addition, the range of delicatessen goods, fresh fruit and vegetables, a flower and plant department (in 85% of the shops) and a wide selection of biologically grown fruit and vegetables. Not all these innovations have been a success. An experiment with fresh salads was terminated n 1992. There are now salad bars in only two Safeway shops. The fresh bread, customer-composed pizzas and biologically grown fruit and vegetables provide a lower turnover but act as important lures to customers.

The second class, related products and services, include the 53 chemist's shops in Safeway establishments in 1992. In addition, some Safeways have a post office or a coffee shop with a pastrycook's attached (371), and telephones for calling a taxi free of charge. The newest innovation in this field is the setting up of a filling station on Safeway's car park, which has already been done at 40 establishments.

Besides being at the service of the motorist, Safeway wants to acquire a "green image". All Safeway's vehicle fleet runs on unleaded fuel, no tropical hardwoods may be included in the products sold and packaging materials are re-used in paper carrier bags. Most Safeway shops have collecting bins for recovering and recycling aluminium cans. Argyll stresses the fact that, for new establishments, architects are specially employed to make the building fit into its environment.

Since 1982 Safeway has had a Nutrition Department which will provide customers with information on request or via free brochures on the nutritional value of a large number of products.

Safeway pursues an active own-brand policy. Every year, 500 to 700 new own brands are introduced. In 1992 as many as 1,500 new own-branded products were available. There are now mover 4,000 products under the firm's own brand. They account for more than 40% of grocery sales.

The newer Safeway stores are arranged around two kinds of customer. First, there are those who buy groceries "in bulk". The part of the shop devoted to them is arranged with an eye to speed and efficiency. The second kind buy mainly fresh fruit, vegetables and meat and refrigerated or deep-frozen products. In this part of the shop it is easier to make a choice over a longer period. The refrigerated and deep-frozen goods are close to the exit. Research has shown that customers often spend over an hour in the shop, and deep-frozen products can begin to thaw in that time.

The difference between types of customer may be seen from different types of till equipment. Three types have been introduced: "express", "scan and pick" and "self-pack".

Presto

The Presto chain also includes some 40 smaller supermarkets in western Scotland operating under the name Galbraith. Until 1987 Presto was Argyll's central trade name. After that date, the largest establishments were converted into Safeway stores. This operation has since been halted. Presto is to be retained as a trade name, including 37 shops which were originally to be converted into Safeways. The average since of these establishments, 1100 m^2, has since been considered too small. The conversion programme did indeed put heavy pressure on the internal organisation and staff of Presto. One of the results was that, during the time when the sales area was reduced by some 50%, turnover fell by only 31%. The trading result even fell by only 13% through considerable improvements in the margin.

From 1991 Presto has once again led an independent life with plans for opening some six new shops a year with an area of between 1100 and 1650 m^2.

Geographically, Presto is primarily oriented towards Scotland. The shops will be supplied via the Safeway distribution system.

In 1990, Presto's turnover was 1.7 thousand million NLG, about 12% of Argyll's total. The result for 1991 was regarded as "satisfactory". The conversion programme means that Presto's figures, where available, cannot be compared with those of previous years.

Lo-cost

Besides the supermarkets under the name, Lo-cost also covered 290 off-licences running under the names of Liquorsave and Winterschladen. The latter chain has already been got rid off, while the former will be unloaded during 1992.

With its limited product range (3500 items), Lo-cot is directed at the discount market segment. It is run as an independent chain and has its own distribution system. Geographically, Lo-cost stores are mainly to be found in Wales and northern England, without overlapping with Presto. The chain was established from elements including the former Pricerite and Liptons shops and more recently by the conversion of some 100 small Prestos. Future plans for Lo-cost include the opening of six new shops a year with an average sales area of 770 m^2 in the region already covered by the chain.

Lo-cost's turnover in 1991 was 1.4 thousand million NLG, from which a satisfactory result was achieved.

Other operations

Argyll's other operations cover only a very small part of the total turnover. This group of activities consists of the operation of Mojo and Snowking. Mojo is a cash and carry food wholesaler consisting of 24 depots in England and Wales. Snowking specialises in the distribution of deep-frozen foods and has 10 depots in southern England and the

Midlands. As has already been stated, 1992 saw the end of the operation of the last off-licence chain.

Distribution

In 1991 distribution accounted for 2 thousand million NLG.

Within Argyll there are two distribution systems operating independently.

The smaller is that for the Lo-cost stores and consists of a central distribution depot in Queensferry, north Wales, and depots in Shrewsbury and Salford. The Queensferry centre was extended in 1989 to continue to serve the growing number of Lo-cost shops.

The most important system that for the Safeway and Presto shops. Since 1990 both chains have been using the same distribution system. It consists of 10 centres.

	m^2
SCOTLAND	
Bathgate	24,200
Bellshill	56,100
Abbotsinch	22,100
NORTHERN ENGLAND	
Warrington	34,300
Felling	22,800
Stockton	16,700
Wakefield	22,700
SOUTHERN ENGLAND	
Bristol	38,500
Welwyn	20,500
Aylesford	60,900

This system is supplemented by a depot in the Midlands, run by a third party, for wines, spirits, tobacco and a number of expensive items.

90% of Safeway's sales are delivered via the distribution system. Only a limited number of fresh products are delivered directly by the supplier.

During the integration of the Presto and Safeway system, most of the depots were modernised. Besides computer equipment, facilities for refrigerated and deep-frozen products were installed. The showpiece is the new depot in Bellshill, Scotland, with storage lines for products at -25, +2 and +5•C and room temperature. Argyll claims that Bellshill is the largest distribution centre in Europe under one roof. It serves 82 Safeway and nearly all the 215 Presto establishments and is largely automated. Even the location was determined by computer, using the existing and planned establishments and the local ancillary facilities as the bases. In the centre, goods are collected by computer-controlled lifts and wagons by the composite system. This means that all products for a particular establishment are loaded on the same lorry, regardless of the temperature at which they need to be transported. Deliveries to the shops are made at night, as is the filling of the shop shelves. There is indeed a trend towards doing the latter in the morning because lower wage supplements are then payable.

A new system for the delivery of fresh products was introduced in 1991, reducing order processing from 72 to 24 hours.

Information technology

Information technology in the shops themselves mainly concerns the Safeway stores. In 1990, 80% of sales in Safeway shops passed via scanning equipment, "EPoS" (Electronic Points of Sale), and nearly 90% in 1991. In more than 40 shops customers could pay electronically via an AFTPoS system (Electronic Transfer of Funds at Points of Sale). Experiments with integrated scales at the tills where products can be weighed and paid for in one operation are being conducted in various shops.

In many shops the staff are equipped with portable terminals linked without wires to the stock scanning equipment. A test has meanwhile been set up with a new-generation order system in which the scanning equipment at the exit is linked finally to the computer at the storage depot. Thus the shop systems are connected to those of the distribution system. Thence ever more computer links run to the most important suppliers.

Such a central system is also being set up between the shops and the head office, providing permanent contact between them.

Permanent contact with the ERA partners is possible from head office.

ECONOMIC COMMERCIAL OPERATION

The figures

The large number of takeovers made by Argyll are reflected in a very fast-growing turnover. Its turnover in 1979 was 77.5 million NLG. In the financial year 1992 (ending on 30th March, 1992), this had increased to 16.5 thousand million NLG, almost two hundredfold. The large number of acquisitions, of course, means that some caution must be exercised in comparing figures for the various years.

Basic turnover data 1987-1992 (in millions of NLG)

	1992	1991	1990	1989	1988	1987
turnover	16830	15700	13423	12825	12003	7065
trading result	1205	940	729	652	570	282
net profit	–	690	528	434	352	169
margin excl. VAT	–	6.3	5.7	5.4	5.0	3.9

The above data clearly show how important to Argyll was the takeover of the Safeway chain. The turnover was substantially increased. What was more important, however, was that the margin was considerably increased. The result of this was that, in 1992, the turnover had doubled by comparison with 1987, while the net profit had quadrupled. It is remarkable that, even with the high costs entailed by the conversion of closure of the Presto shops, the margin continued to rise. In 1991 Safeway's margin was 6.7%, whereas it was an average of only 5.0% for the other operations. On 30th March, 1991, Argyll's stock exchange value was 9.2 thousand million NLG. At that figure, it was the 35th British firm in size on the London stock exchange. The 950 million NLG ordinary shares are largely in the hands of banks (64%) and insurance companies (13%). Ahold and Casino each hold 1.6% of the shares.

Employees

With the Safeway takeover, Argyll's total staff numbers increased substantially.

Basic staff data, 1986-1991

	1991	1990	1989	1988	1987	1986
total	67,609	64660	63393	59,513	39,398	37,806
fte	43,870	43,380	41,413	40,167	26,923	25,750
turnover per fte (thousands)	356	311	309	299	262	266
result per fte (thousands)	21.5	16.8	15.6	14.1	10.6	9.3

These figures show that productivity, expressed in turnover per fte, was already increasing before the takeover of Safeway. The turnover/fte rose by 46% between 1986 and 1991. The larger margin which Argyll managed to produce was mainly reflected in a steep rise in the trading result per fte, amounting to 150% in the period quoted.

Argyll's staff policy differs from one operative company to another as a result of the autonomy of the management concerned. The result is that separate CLA (collective labour agreement) negotiations are held at Presto and Lo-cost. There are none such a Safeway and the regulations of the sector CLA apply. Safeway's management has a policy of encouraging union membership for its own staff. The agreement between the unions and the Argyll management concluded on the takeover of Safeway includes the provision that conditions at Safeway may not be below those of Presto and Lo-cost. Wage scales and other conditions at Safeway are just below those of the other leading British firms in the sector.

Since 1987, when Argyll got rid of Barton Brands via a management buy-out, all the firm's operations have been in Great Britain. There, the firm is heavily represented in south-east England and central Scotland.

INTERNATIONALISATION

Argyll's attention is strongly directed towards domestic development. Since the sale of the American holdings, the main activity has been the expansion of the Safeway chain. The programme of converting Presto to Safeway has been halted. There is, however, the question whether the fierce competition between Safeway on the one hand and Sainsbury and Tesco on the other will leave much energy for an active international policy. Argyll's contribution to ERA mainly consists of sharing experience and the installation of electronic lines of communication.

At the beginning of 1992 visitors to the new Safeway establishment in Hatch End were surprised at the 50 products from Casino's own-brand series. They were mainly "typically" French products like ragoûts and cream puddings.

CASINO

GENERAL

Groupe Casino is active in the retail food trade in France and, to a lesser extent, in the USA. Its turnover in 1991 was 14 thousand million NLG. It employs 44,217 people or 37,570 full-time equivalents (fte). After its takeover of Rallye in October 1992, the turnover rose to almost 22 thousand million NLG and the staff numbers to 57,691 (48,983 fte).

In France Groupe Casino has various types of food chains: neighbourhood shops (or superettes), supermarkets and hypermarkets. It also has cafeterias and foodstuffs production plants in France.

History

Mr. Brechard opened a shop in a room of the old casino in Saint-Etienne in 1860. Three years later he sold the business to his colleague J.C. Perrachon. In 1879 his son Paul took the business over. In 1889 Paul Perrachon went into partnership with his brother-in-law Geoffrey Guichard and in 1898 they opened a branch and set up the "Société des magasins du Casino". In the same year the first warehouse was established in Saint-Etienne La Montat. 1898 is regarded as the year in which Groupe Casino was founded. In 1904 there were 85 branches and a social fund was set up for employees and managers.

In 1919 a chocolate factory was built near Saint-Etienne, and it later began producing jam, sweets, confectionery, etc., as well. 1920 saw the takeover and reorganisation of a factory for preparing preserved foodstuffs and a bottling works was established in Beaucaire.

The Casino pension fund was set up in 1922.

By 1934 there were already 1,587 branches. Saint-Etienne and Clermont-Ferrand were followed by Avignon, Marseilles and the Côte d'Azur.

Casino's first supermarket was established in Grenoble in 1960. In 1967 the first "Cafétéria Casino", later called Caf'Casino, was opened in Saint-Etienne.

The first hypermarket was opened in Marseilles in 1970 under the name "Géant Casino" (géant = giant). In the same year the Paris area was entered with the establishment of two supermarkets there. It was also in 1970 that the Sarthe (later SABIM) slaughterhouses and cold stores were set up.

In 1971 Casino took over l'Epargne, a firm with its head office in Toulouse and several branches, taking the number of sales outlets run by the Groupe Casino to 2,575.

In 1980, together with the Belgian group GB-INNO-BM, Casino launched a chain of hamburger restaurants under the name Quick.

A second slaughterhouse was established in Saint-Maixent under the name SABIM Saint-Maixent in 1981.

In 1982 Casino took shares in the Hippopotamus group which runs restaurant-grills. In addition, the "l'Epicier Casino" chain of associated shops was launched. 1984 saw Casino's share in Hippopotamus rise to 50% and, in the same year, Casino bought a chain of semi-wholesale food shops, SFI, in the USA.

In 1985 Casino gained control of Cédis, a retail grocer (including 16 Mammouth hypermarkets, supermarkets under the names of Suma, Ravi and Eclair and garden centres) in eastern France, employing about 9,000 people. A 47% interest was also acquired in the Paridoc purchasing organisation of which Cédis is a member.

In 1986 France Quick obtained control of the O'Kitch fast-food chain and in 1987 "France Plats Cuisinés", a ready-prepared meal producer, was set up. At the same time, "Casino Chances" was established as a service firm providing advice on founding companies.

In 1988 Casino took a 49% holding in Sogerba, a subsidiary of the Belgian Wagons-Lits group which operates 27 roadside restaurants under the names "Restop" and "Relais". Casino and Wagons-Lits were already partners in France Plats Cuisinés. France Quick took over "Free Time", another hamburger restaurant chain; it was run in co-operation with GB-INNO-BM (but abandoned in 1990). A supermarket franchise chain was started under the name Sup Casino.

In 1989 Casino signed co-operation agreements with various European groups (ERA/AMS/La Rinascente). It withdrew its holding from the purchasing organisation Paridoc. At the same time, the "Institut Pierre Guichard" was established for staff training (management, communications, marketing, law, etc.). In addition, Casino Chance, a service bureau for budding businessmen (franchisers) was set up.

In 1990, at a price of about 1 thousand million NLG, Casino took over "La Ruche Méridionale" (turnover in 1989 2.8 thousand million NLG), a concern operating mainly food shops in south-western France. This added 365 neighbourhood shops, 112 supermarkets, 18 hypermarkets, 10 Cash & Carry stores, 4 distribution centres and 13 restaurants and cafeterias to Groupe Casino's property and the number of employees increased by 6,800. Francap Distribution, a purchasing centre with a turnover of 6 thousand million NLG and 35 employees, was absorbed. Casino also entered the Difra purchasing organisation of which it immediately became the largest member. The (by now) 18 Mammouth hypermarkets (from the Cédis takeover) were all rechristened Géant Casino. At the end of 1990 Casino sold its filling stations at 172 hypermarkets and supermarkets to Agip and Shell, which began running them under their own names from the beginning of 1991. The American subsidiary SFI took over a competitor, Port Stockton Food Distributors.

In 1991 France Plats Cuisinés was sold to BSN and co-operation with La Rinascente in SMAFIN was terminated. The American subsidiary SFI was introduced on the New York stock exchange.

At the beginning of 1992 the 50% holding in Hippopotamus was given up. The production of Grigny Frais was also halted and the operation of the Saint-Maixent slaughterhouse was ended. The "Fondation Casino", a charitable fund, was established.

In June 1992, Casino announced a new major takeover on the domestic market: the Rallye retail food trade operation in Brittany. Rallye retains operations outside the food sector: Go Sport, Courir, Athlete's Foot. Casino's shareholders had to approve the takeover in October 1992. The number of hypermarkets (plus 44, less 4 franchisers) and supermarkets (plus 196) was thus greatly expanded as was the number of cafeterias (plus 70). After the takeover, Casino owns 101 hypermarkets, 480 supermarkets, 2,344 neighbourhood shops and 221 cafeterias. In exchange for the sale, the financiers/owners of Rallye received a 30% holding in Casino (25% of the votes). The total turnover of the Casino group was thus raised from almost 14 thousand million NLG in 1991 to nearly 22 thousand million NLG, of which about 18.5 thousand million NLG came from the French retail food trade. The number of full-time equivalents (including temporary workers) rose by 17,471 to 48,983. In absolute terms, some 20,500 Rallye employees were added, bringing Casino's total to 57,691.

Position on the domestic market

The French food market consists of the large supermarket chains on the one hand and, on the other, purchasing organisations and associations of independents: co-operatives have never got off the ground. The property structure is rather complicated, with, for instance, many hypermarkets in the hands of or connected with purchasing groups. There are many family firms on the food market. Most concerns have a regional emphasis; only a few operate on the national scale.

In 1988 French consumers bought food to a value of about 206 thousand million NLG. Some 55% of this was sold by large chains and shops linked to purchasing groups, 37% by small retail shops (e.g. bakers, butchers) and 7% at market stalls, etc. Of that 55%, 24.4% was bought at hypermarkets (sales area over 2,500 m^2) and 23.6% by supermarkets (400 to 2,500 m^2)[1].

In 1989 there were in France a total of 6,757 supermarkets. 64% of newly opened supermarkets (a total of 323 in 1989) belonged to the "independents" (i.e. not the large chains like Casino). At the end of 1989 there were 807 hypermarkets (40 new openings). A distinction among the supermarkets must be made between discount supermarkets (almost 3,000), limited-range ones (e.g. Aldi; 35 units), quality supermarkets (about 650 establishments), high-consumption stores (55) and conventional supermarkets (about 2,200). Casino falls into the class of supermarkets with a quality range. With 129 establishments, Casino took second ranking in this class in 1989 after STOC (Comptoirs Modernes/Carrefour: 199 establishments) and was closely followed by Monoprix (126).

1 Retailing in Europe - France 1990

French analysts forecast that in the year 2000, there will be 8,750 supermarkets and 1,330 hypermarkets in France[2]. In addition, the average sales area of the supermarkets will increase slightly (from about 975 to some 1,000 m^2), while that of hypermarkets will fall slightly (from 5,440 to 5,030 m^2). The hypermarket has undergone a change: from a very large store in the country in 1970 with moderately priced goods in a rather unattractive shopping environment to a smaller store nearer the customers, a wider range, higher-priced goods in a more service-oriented environment in 1990. From 1990 to the year 2000 the demand for low-cost items (tight margins) and service (higher costs) will put pressure on the exonomic viability of super and hypermarkets.

The French retail trade has been steadily selling ever more wine and spirits. In 1988 the large supermarket chains and supermarkets linked to large purchasing groups had a market share of 44.2% (as against 28.8% in 1984) in this category. Casino has a market share of 2.4% (eighth place). It is topped by, in sequence, Leclerc, Intermarché, Auchan and Carrefour.

With its entry into the Difra purchasing organisation (with Catteau, Rallye and Monoprix as some of its other members), Casino gained as much purchasing power as its competitors Leclerc and Intermarché. In 1991 Carrefour increased its lead over Casino by taking Euromarché over for 1.7 thousand million NLG. Analysts consider that only five national retail trade groups will be left by the year 2000. Casino did not want to miss the bus and began negotiations with Cora (north-east area) and Rallye (north-west). Following its takeover of Rallye, Casino became fourth in terms of turnover on the French retail food market, after Leclerc (turnover 31 thousand million NLG), Intermarché (30 thousand million NLG) and Carrefour (23 thousand million NLG). If the turnover of the franchisers is included in Promodès (14 plus 9 thousand million NLG), Casino slips to fifth place. If we look only at integrated retailers, Casino stands in second position after Carrefour (but this is not a valid comparison in the Netherlands). Carrefour looks abroad more than Casino. Carrefour obtains a considerable share of its turnover abroad and also invests more in other countries.

With regard to the number of hypermarkets after the takeover, Casino achieved third place: Leclerc has 256, Carrefour 145 and Casino 101. In numbers of supermarkets, Casino lies fourth: Intermarché has 1,590, Promodès 1,076, Système U 900 and Casino 480. In numbers of neighbourhood shops or superettes, Casino leaps ahead; it has 2,344 and Promodès 1,019 (including franchises).

Image

Casino is a chain with three kinds of shop: hypermarkets, supermarkets and neighbourhood shops. This creates some confusion among consumers, mainly because different prices are charged for the same product, e.g. a Casino-branded bar of chocolate, depending on the type of shop in which it is bought.

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2 Denis Stocklet et Associés (a bureau studying and providing advice on marketing strategy) in Point de Vente No. 382, 15th March, 1990

Casino's image is somewhat old-fashioned and conservative. Casino claims that surveys have shown that the public at large (both customers of Casino and those who do not shop there) associate the firm with quality. The customer also, however, finds Casino very expensive; hardly anyone in the lower income groups shops at Casino. It is said that Casino shops would increase their turnover by 20 to 30% if the name Carrefour were to appear on the shop-front while the rest of the business (prices, quality) remained the same. In an actual exchange, that did indeed happen.

Casino is conducting a campaign to persuade the public that its goods are not only of high quality but also attractively priced, in an attempt in particular to bring in young customers.

Casino's bakery, confectionery and take-away meals are sold with the guarantee "satisfaction or twice your money back". At the end of 1989, the stiff competition on the food market forced Casino to lower its selling prices.

Casino is selling more and more own-brand goods under the Casino name. They are of the same quality as the well-known brands but cheaper. The own-brand goods sell better in the neighbourhood shops than in the larger stores. The firm is also trying to market some more non-food goods under its own label; a start was made in 1992 with the development of a line of Casino clothing.

Rallye also has its own brand and also sells textiles and clothes. It is stronger than Casino in non-food lines. Rallye's own brand is stronger than Casino's in the hypermarkets.

FIELDS OF OPERATION

Groupe Casino is active in the five fields below:

1. Chains of shops (primarily) for foodstuffs;
2. Restaurants;
3. Food production;
4. Cash and Carry in the USA;
5. Miscellaneous operations.

Re 1. Chains of shops mainly for foodstuffs

In 1990 Casino's turnover in the retail trade (including its interest in SMAFIN) was 13 thousand million NLG out of a total turnover of nearly 15 thousand million NLG. The retail trade turnover for 1991 is not known. In 1990 Casino had 2,877 shops employing 26,434 fte.

* There were 2,466 superettes or neighbourhood shops bearing the name Casino in 1991. During that year, 33 new shops were opened, 101 old ones closed down and 113 renovated. Plans for 1992 included the opening of 103 new shops and the renovation of 178 existing neighbourhood shops.

* In town centres and peripheral urban areas are to be found the 258 supermarkets under the names Supermarché Casino and Sodim. The Casino supermarkets sell about 8,000 items, including 5,000 foods. The sales area varies between 500 and 2,500 m^2. There are many prepared products (bakery, confectionery, take-away meals). In 1990 the continuation of the Sup Casino franchise chain (franchise shops open 24 hours a day) was under discussion owing to the takeover of La Ruche Méridionale, but in 1991 their number had risen from 35 to 80. In 1991, again, another 4 new supermarkets were opened, 17 renovated and 43 Sodim shops rechristened Casino. Plans for 1992 were to open 10 new supermarkets and renovate 60 existing ones.

* On the periphery of a large number of big French towns there are the 56 hypermarkets, mainly under the name Géant Casino. 16 hypermarkets under the name Univers, from the takeover of La Ruche Méridionale, were or were to be modernised and given the name Géant Casino. Two Univers hypermarkets were closed. The programme for 1992 included the change of 7 Univers hypermarkets into Géant Casino, and two were to be extended. In addition, 10 existing hypermarkets were being modernised and four of them extended.

  Besides a wide food range, Géant Casino sells other articles like textiles and clothing ("Alias" brand), leisure items, sports goods, domestic articles and hi-fi equipment. The total range covers 35,000 items. The sales area varies between 3,000 and 13,000 m^2. Services are also provided, e.g. customer service, credit cards, etc. In 1988, for example, 30.7% of the turnover of the 41 hypermarkets arose from the sale of fresh products and 28.7% from that of mass goods. In October 1990, the Géant Casino in the Saint-Etienne shopping centre opened after drastic modernisation which shut the hypermarket for six months. The renovated establishment included a traditional bakery and confectionery where all the products were prepared and baked on the premises. There was also a compact disc department with about 8,000 different titles.

* In 1991 there were 65 Convenience Stores (about half of them franchised). These shops, which sell food and other products at the filling station 24 hours a day, were set up together with Elf France. The operation is covered by Carmag (50% Casino, 50% Elf).

* Auto Service, 25 shops selling motor accessories, often with a small workshop. In 1989, Auto Service was third in the motor accessory field in France, after Norauto and Feu Vert.

Re 2. Restaurants

Casino was the market leader in France in the restaurant field and in fourth place in Europe in 1989. Interest in restaurants has fallen, however, since 1991. Casino's catering turnover in France in 1991 was 1.2 thousand million NLG. It then ran 323 restaurants employing 7,076 fte.

They included:

- 148 Quicks (snack bars)
- 150 Caf'Casinos (cafeterias)
- 17 Hippopotamus (restaurant-grills) (since sold)
- 8 Dunes (fast food restaurants)

Casino entered the catering market with a chain of cafeterias under the name Cafétéria Casino, later abbreviated to Caf'Casino. It was such a success that the firm diversified into the catering sector. In 1991 thirteen new Caf'Casinos were added, consisting of 7 newly opened businesses and 6 taken over from La Ruche Méridionale or Carrefour. 15 cafeterias were modernised in 1991. Rallye's cafeterias are probably being converted into Caf'Casinos, an operation which Casino wants to continue owing to the familiarity of the name among the public.

In 1988 Quick held first place on the French fast food market and Free Time, which was operated together with the Belgian group GB-INNO-BM (France Quick Freetime: 50%) stood third. It was decided in 1990 to close down the Free Time chain because it competed with Quick, which did things better. In 1991, 27 new Quicks were added, five of them converted Free Time snack bars. Casino was faced with the rapid rise of McDonald's. In 1990, Casino looked into the necessary steps to keep the lead. It became known in 1991/92 that Casino Quick Belgium and Quick France were to merge. Casino obtained a holding of 30% in the new firm, and now it wants gradually to get rid of that holding.

Casino used to have restaurant-grills under the name Hippopotamus (50%), but this holding was sold in 1991.

Dune restaurants are established at Casino super and hypermarkets. Dune offers several variations of "fast food" on one spot. Blue Grill is one of the types. Dune launched a new concept, Cariboo, in 1991, with American pizzas, etc. Two Cariboo businesses were opened in 1991, followed by a third in 1992.

In April 1992, Casino left the chain of roadside restaurants with the sale of its minority holding (49%) in Sogerba, a joint venture with the Belgian Wagon-Lits, to that partner.

Re 3. Foodstuffs production

From 1919, Casino produced its own foodstuffs in order to provide its own shops with goods of the same quality. In 1990, the Casino plants produced 280,000 tonnes and 105 thousand million litres. In that year, Casino was one of the 20 largest in France. In 1991, the turnover was 1.7 thousand million NLG. The net profit doubled to 18 million NLG. 2,062 fte were employed.

Since 1983, the products have not been sold solely to its own shops and restaurants; in 1991 just 53% of the turnover came from sales to third parties. In 1991 the group had two purchasing offices abroad, in the USA (New York) and Thailand (Bangkok).

The French agrobusiness sector is undergoing rapid concentration in which some sectors are already dominated by a few French and international groups. Groupe Casino has reinforced its own production units in those fields where the process of concentration is not yet complete. Nevertheless, it became clear in 1991/1992 that Casino wants to withdraw completely from the production of foodstuffs. The retail trade is the nuclear operation of the concern.

In 1991 Groupe Casino still had 13 plants:

* 2 slaughterhouses (SABIM) (1 closed since, the other is for sale)
* 2 bottling works (Les Chais Beaucairois)
* 1 preserved meat products plant (Impérator)
* 1 coffee roasting plant (Cafés Massilia or Camasa) (since disposed of)
* 4 units for the production of jam, chocolate and other sweets, mustard and groceries (Société Alimentaire du Forez or SAF) (since closed)
* 3 fresh-food works, two of them for producing confectionery (as from 1988 frozen tarts as well) (Grigny Frais) (since closed).

In 1991 SABIM obtained 65.5% of its turnover from sales to third parties. Although Casino had earlier made it known that its slaughterhouses - after investment - would be among the most efficient in Europe in 1992, operations in the Saint-Maixent unit were terminated in that very year. The other is for sale but, by government order, only to French interests. The coffee roasting works of Camasa in Marseilles was the French number two but was shut down in 1992.

Operations at Grigny Frais were stopped in March, 1992.

The list also no longer includes France Plats Cuisinés (ready-prepared meals). This firm, which Casino ran together with Wagons-Lits, was still the market leader in 1988 in the catering field in France (with a market share of 40%). It was sold in October, 1991, to the great French foodstuffs producer BSN.

Thus, of the 13 listed works, only 8 were left in the course of 1992. It would fit into the new policy if these factories were also sold or closed down.

The remaining production firms use very modern machinery. Meat products manufacturer Impérator acquired the most modern production line for pork and delicatessen in Europe in April 1989 (700 dishes a minute: investment 2.3 million NLG). Impérator had previously already been fitted out with the most up-to-date machine for vacuum-packing meat products. In 1990 Impérator developed a new line of ready-prepared salads.

In the wine sector Casino started up the most modern wine-packing firm in Europe. It went primarily for the "bag-in-box" market, i.e. wine sold in a cardboard box containing a sterile plastic bag which folds when the wine is no longer being poured to prevent the ingress of light or air and the wine will keep for weeks.

Re 4. Cash and Carry in the USA

Casino's interests in the USA yielded a turnover in 1991 of 1.2 thousand million NLG and a net profit of 82 million NLG. It employs 1,818 fte. In 1984 Casino USA Inc., which covers the American interests of Groupe Casino, obtained a majority holding (88%) in the Smart and Final Iris Corporation (SFI, established in 1871). In 1991 SFI was quoted on the New York stock exchange. Casino's holding in SFI has dropped to 50.14%.

Since 1984, Casino has been running a chain of semi-bulk stores selling catering and major consumer products on the west coast of the USA. In 1991 the chain consisted of 116 chops: 108 in California, 5 in Arizona and 3 in Nevada. In 1990, the own brands Iris, Smart Buy and Table Queen accounted for 22% of the turnover and 29% of the gross margin.

10 new businesses were opened in 1991, bringing the total sales area to nearly 150,000 m^2. The distribution facilities were also considerably extended in 1990.

Casino USA is also the full owner of Casino Realty, a real-estate firm. It is the project developer for SFI's new establishments. In 1991, Casino Realty sought sites for the 40 new SFI shops to be opened over the next three years.

At the end of 1990, Casino American Food Service, a wholly-owned subsidiary of the SFI Corporation, took an 80% holding in major consumer Port Stockton Food Distributors (turnover about 82 million NLG), a firm oriented towards northern and central California, specialising in the sale of groceries and kitchen equipment to restaurants, schools and clubs.

Casino is also the owner of Smart Party Rents, a firm hiring out festive articles. In 1990 Smart Parts Rents ran at a moderate loss; examinations are being conducted into whether or not to continue this operation.

The 1991 annual report makes no further mention of two other firms, Casino de France, which ran a few Fench roll shops (Petit Casino) and cafeterias, and Casino Frozen Foods, a firm handling deep-frozen products which was to start up in February, 1991. It is not known whether these activities have been terminated.

Re 5. Miscellaneous operations

These include the real-estate firm SAIC (Société Anonyme Immobilière du Casino) with a turnover of 8.5 million NLG in 1989, and Casino's intersts in Ahold, Argyll and - until recently - SMAFIN.

Casino has been active in the field of DIY shops under the name Obi. It was announced in 1987 that these shops were doing well; Obi, with 59 shops, was third on this market. In October 1989, the majority holding (65%) in Obi was sold to Castorama, the market leader in France in this field.

COMMERCIAL ECONOMIC PERFORMANCE

Groupe Casino is growing strongly. Especially from 1989 to 1990 (takeover of La Ruche Méridionale): turnover rose from 12 to nearly 15 thousand million NLG.

In the first half of 1990, Casino suffered a loss of 51.2 million NLG. The poor result was attributed to reorganisations, expensive advertising campaigns and low margins. These figures for the first time inlcude the results of La Ruche Méridionale, the chain which Casino bought in April 1990, for about 1 thousand million NLG. Nevertheless, the financial year 1990 still closed with a profit.

In 1991, a lower turnover was achieved than in the previous year, 14 thousand million NLG (as against 15 in 1990). The lower turnover may partly be attributed to sales of subsidiaries and supermarkets. The net profit was higher at 176 million NLG (as against 131). The net profit formed 1.25% of the consolidated turnover (as against 0.87% in 1990).

In turnover the retail trade is far and away the most important operation of Groupe Casino. In 1991, retail trade accounted for 76% of the group's turnover, production 12%, restaurants 9% and the USA 9% as well. (See appendix for more financial information).

In 1992 the takeover of Rallye was to occupy a few months, raising the turnover. It is only in 1993 that the effect of this takeover will become clear in the figures.

Employees

In 1988 Groupe Casino had slightly over 35,000 employees. The figure for 1990 is 46,971 or 40,727 fte.

It was announced in July, 1990, that Casino wanted to reduce the number of employees by about 1,450 over the coming year. The senior man, Antoine Guichard, said that, with these measures, Casino wanted to increase profitability in order to bring itself more into line with the ERA partners Ahold and Argyll. The French trade union doubted whether that was the real reason. It was alleged that Casino had dropped so far behind other retail traders in the sector that reorganisations were inevitable. Most of the jobs were to be shed in the head office of La Ruche Méridionale, the supermarket chain taken over by Casino in April 1990.

In fact, some 2,000 jobs were lost within about a year. On 30th November 1991, 44,217 people (35,570 fte) were wtill working for Groupe Casino. The *Comité Central*, a kind of central works council, agreed to that. There was a Social Plan.

In 1992/93 further reorganisations are expected in which jobs will be lost. The blows are expected to fall this time on Rallye's head office, with 400 workers, and a few distribution centres.

According to the management, the key words in social policy are listening, training and helping. In the production sector Casino has over the past few years taken on young engineers and marketing experts who underwent extensive training abroad before starting at Casino factories. Casino has built up close relations with the best schools for business and occupational training in France.

The French unions have few members in Casino. The degree of organisation must be about 5 to 6%. That figure is normal for the French retail trade. All Casino's employees (shops, DCs, catering, production) are in the same trade union. Force Ouvrière (FO) is the largest union in Casino.

Rallye is a rather paternalistically run, closed firm. It is anti-unionist. Nevertheless, unions are present in 70% of the hypermarkets. About half of the union members belong to FO.

Legal structure and leaders

Until recently Groupe Casino consisted of different divisions operating in a given business sector: food production, restaurants, etc.

From 1991, Casino has had a new legal structure in which the various divisions have become subsidiaries. S.C.A. (limited partnership) Casino is the holding company. The S.C.A. structure is rare in France. The purpose is to separate owners and management.

A small team works in S.C.A. Casino on finances, holdings in other firms, trade marks, staff policy and the group's real-estate holding company. The main susidiary is the S.N.C. Casino France, established on 1st May 1991, which runs all the retail operations, restaurants and, since 1991, production plants of the group. At the end of 1990 the book value of S.N.C. Casino France was set at 134 million NLG. S.C.A. Casino has a direct holding in it of 80% or 107 million NLG. Ruche Méridionale (LRM) 20% of 27 million NLG(S.C.A. Casino has a holding in LRM of 99.9%). See appendix for the diagram of the new organisational structure.

From 1989 Antoine Guichard, Yves Guichard and Gilles Pinoncély were both Group managers and members of the executive committee. Antoine Guichard is the chairman of the group management board.

S.A.R.L. EUROSIA, a partner firm of "Associé commandité" was set up at the end of 1990. EUROSIA is responsible for the management of the group. The enterprise appoints the senior management and must approve the broad outlines of strategic policy. With its advisory hat on, EUROSIA approves the new legal and organisational structure, for example, like Casino's co-operation with Agip and Shell and the establishment of S.N.C. Casino France. This partner firm also sets the dividend. The members are both leaders of Groupe Casino (including the group managers) and those of Ahold (Everaert), Argyll (Grant), the Axa Midi group and Rhône-Poulenc. The members are in EUROSIA in a personal capacity (see appendix).

The family nature of Groupe Casino appears in the repeated occurrence of the name Guichard in top positions. Founder Geoffrey Guichard was succeeded by his son Pierre Guichard, who died in June, 1988. At present Antoine Guichard is the most important man. In EUROSIA, Charles Guichard is present as the representative of the founder's family (about 300 people).

In 1992 the family's holding was reduced further by the way in which the takeover of Rallye was financed. The Guichards' interest dropped thereby from about 26 to almost 19% and the voting rights fell from nearly 40 to under 30%. Second place in Casino fell to Jean-Charles Naouri, who had held ministerial posts in the recent past. Earlier, Naouri had hauled Rallye, via Euris, out of financial difficulties and kept a controlling interest in Rallye. The Cam family, heirs of the founder, did indeed have a 50% holding but not the operational voice. At the expense of closing branches, Naouri had reduced Rallye's debt from 1.3 to 0.8 thousand million. Naouri is one of the three people who are reinforcing EUROSIA, bringing the total number of people to 13. Naouri will be leading EUROSIA together with Antoine Guichard.

The French trade union fears the strengthening influence of financiers within EUROSIA. Will not financiers have a main eye on possible cost savings, for instance, in the takeover of Rallye by Casino?

STRATEGIC BUSINESS POLICY

It is noteworthy that, at least over the past five years, Groupe Casino has been continually reorganising. In one case the DIY businesses are sold and in another a different organisational structure is introduced (e.g. into divisions or "self-contained" subsidiaries), or indeed the opening and closing of shops or general staff reductions. The integration of absorbed retail chains also leads to reorganisation.

Casino's strategy includes the closure of unprofitable shops and the opening of new ones. For example, in 1988, 268 neighbourhood groceries were closed, while 38 were opened, as were 90 shops belonging to members and franchisers. Hundreds of shops were added with the takeover of La Ruche Méridionale in 1990. In that year, Casino's internal growth led to the opening of another 13 supermarkets and 25 neighbourhood shops. Against this, 39 unprofitable supermarkets were sold. Groupe Casino intends over the coming years to develop mainly small and medium-sized shops, both by enlarging existing ones and opening new shops in important urban centres.

Casino wants to approach market segments more closely (aiming at a given target group like women and youngsters). The new advertising campaign is thus being conducted under the slogan "Casino shops are just like people, there are small, medium and large ones".

A new three-year plan was drafted in 1990. The Casino leaders want to strengthen the concern culture, reduce the costs of the complicated group structure bequeathed by history, improve supply agreements, modernise the own-brand position and take advantage of the power of the name Casino.

Casino is setting up the development lines below:

a. Internal growth by improving its presence in the following fields: renovation, opening of new businesses, continuous research into new points of establishment.
b. External growth through takeovers to remain one of the market leaders.
c. Co-operative associations within ERA and AMS and bilateral agreements (see below).

In 1990 Casino intended to centralise purchasing under units to be specially set up for the purpose. The distribution of low-priced mass produced goods was to be increasingly contracted out. This led to more room in the DCs for more expensive, strategic or promotional items and a faster stock turnover rate. The number of suppliers (about 9.200) was to be greatly reduced.

The reorganisation of the DCs (distribution centres) was completed in April 1992. Their number has been reduced from 18 to 10. The number of bays was cut from 16 to 7. A distinction must henceforth be made in storage at the DCs between superettes or neighbourhood shops and hypermarkets.

The remaining DCs were extended. The DC in Toulouse was modernised and enlarged. In Marseilles, a very large and important distribution point, one DC was closed and two others expanded. The DCs handle both groceries and fresh products. They run 24 hours a day. Casino is trying to shorten the lines between the DCs and the shops.

Most items are delivered from the firm's own DCs, but some are sent directly (refrigerated goods and beverages). Deliveries to the shops are made both at night and during the day. In hypermarkets the shelves are often filled at night. In the supermarkets this is still done during the daytime but the Casino management is making attempts to have them filled throughout the day.

In 1992 Casino regrouped the goods. The lorries were fitted out to be able to carry fresh products and dry goods at the same time (integrated transport). The firm is trying to deliver to the small shops in one run.

In that year Casino was still involved in rationalising purchases. A smaller range with larger quantities of each article was to be held. This was mainly an economy measure. Comparisons with other food chains showed that Casino could reduce the range of goods; the reduction in the number of items varies depending on class from 10 to 40%.

Table 1

Items per class at Casino before and after reorganisation

	Before	After
Fresh products		
Géant hypermarket	1,524	1,247
Casino supermarket	1,142	973
Carrefour		825
Intermarché		579
Auchan		1,113
Others*		580
Dry goods		
Géant hypermarket	3,331	2,943
Casino supermarket	3,034	2,785
Carrefour		2,060
Intermarché		2,036
Auchan		3,060
Others*		1,860
Beverages		
Géant hypermarket	813	733
Casino supermarket	701	639
Carrefour		550
Intermarché		449
Auchan		843
Others*		409

*Average
Source: LSA No 1308, 11th June, 1992

From 1992 purchasing officers have the entire chain (choice of items, purchase, advertising, etc.). A kind of "category management" has been instituted. One of the aims is to obtain more favourable terms from suppliers. Purchasing of fresh products in the areas has been stopped.

Modernisation of the shops is also part of the strategic policy. For example, it was decided in 1990 to modernise all the hypermarkets. Casino is also working on a new shop formula selling food only (like The Fresh Company).

Computers are steadily gaining in importance in estimating market requirements, maintaining relations with suppliers and the relationship with the shops. In 1992 a computer was linked between the suppliers, the DCs and the shops.

In 1992 all the larger Casino shops, i.e. the super and hypermarkets, were fitted with scanning equipment. Rallye has not yet progressed so far; the money was used to take over two firms.

Electronic payment is a new development at Casino. The concern recently concluded an agreement with a French firm specialising in customer cards. By the end of 1992, the Casino card was accepted in all the hypermarkets; they will be followed by the supermarkets and, eventually, probably by the neighbourhood shops. The card acts as a kind of bank account; the customer opens an account with Casino. Carrefour is leading in this kind of development. Besides the customer card, Carrefour also offers other services, e.g. insurance and travel. Casino will eventually also move in that direction.

Casino does not want to extend the franchise system. It is an exception and must remain so. There is a kind of intermediate form whereby independent supermarkets sell Casino products. There are about 80 of these kinds of shop as a result of the takeover of La Ruche Méridionale. Further franchisers came with the takeover of Rallye.

The takeover of La Ruche Méridionale led, of course, to reorganisations as well, for example to the removal of its management and purchasing departments from Agen to Saint-Etienne in 1990. The next step is optimising the supply chain (including marketing, purchasing and logistics). The latest takeover, of Rallye, will also result in reorganisation. The heaviest blow with regard to job losses is expected at Rallye's head office in Brest. Moreover, some distribution centres overlap; two of the six Rallye DCs are close to Casino's.

Although the takeovers are resulting in job losses in certain places, new shop staff are needed at the same time. Casino finds it hard to obtain staff owing to the low wages paid and the falling status of the work. Casino is trying mainly to interest young people in a supermarket career. It is currently experimenting in Toulouse and Lyon in recruiting 17 and 18-year-olds who go to school two days a week at Casino's expense. Casino is well known for its schooling and training, not only at the top but also at the bottom.

Casino wants to extend flexible employment. In some departments already 60% of the staff are part-timers. The firm also offers many short-term contracts which are renewable.

Casino offers its employees shares. Holdings by employees in their own firm is estimated to reach 11% over a few years.

In the production field Casino's policy was to have modern plants which would be competitive enough to supply third parties. Casino did not want here to do battle against large established producers, but to become or remain large in those fields where producers' concentration has not progressed so much.

It became known in 1992 that Casino had adopted a new policy of selling all production plants. Only the wine bottling works is to remain. The coffee roasting plant has already been dismantled, with the dismissal of 35 people. The other factories are being sold.

The takeover of Rallye in 1992 clearly showed that Casino's main priority was to reinforce its own position in France. A further takeover may be expected in the near future, e.g. of Cora, in order to obtain a firm footing in the north-east of the country. In addition, stress is being laid on the relatively lately pursued modernisation of purchasing, logistics and the shops. The basic operation is the retail food trade, while the rest is being unshipped as far as possible.

INTERNATIONALISATION

General

Like Koninklijk Ahold, Groupe Casino is active in the USA. Both have taken chains over. Ahold has four chains on the eastern seaboard and Casino (since 1984) one on the west coast. Ahold has BI-LO, Giant Food Stores, First National Supermarkets and Tops Markets. Casino has Smart Final Iris (SFI). Ahold's operations in the USA are supermarkets, while Casino's SFI is aimed at semi-bulk consumers.

Unlike the case with Ahold, the American branch's turnover, profits, number of shops and staff numbers form only a small part of Casino's total figures. It is mainly oriented towards France (and Europe).

ERA, AMS and La Rinascente

In May 1989, Casino signed co-operation agreements with two comparable retailers, Ahold and Argyll. In September 1989, this co-operation was taken into the legal structure of ERA, which is designed to investigate all means of combination in the fields of marketing, logistics, production, equipment purchase and the development and operation of new shop formulae and management information systems.

At the same time Associated Marketing Service (AMS) was set up, in which ERA has a 60% holding. Besides Casino, Ahold and Argyll, the first participants were Dansk Supermarked (later withdrawn), La Rinascente, ICA, Mercadona, Kesko and Migros. In October 1989, Casino, Ahold and Argyll mutually took shares to the value of 50 million ECU or 116 million NLG. Thus Casino and Argyll each have a 3.8% holding in Ahold. In 1991 Argyll had a 3.99% holding in Casino, which gave it 2.99% of the votes. In 1991 Ahold had a 4.15% holding in Casino, giving it 3.12% of the voting rights. The financing of the purchase of Rallye reduced Ahold's and Argyll's holdings in Casino to 2.9 and 2.8% respectively. It is not known whether the two ERA partners want to increase their holding again to about 4%.

In 1989 Casino expected that its production plants would play an important part in European co-operation. Its catering branch tried to combine with the European partners. In 1992 Casino's policy was, however, to get rid of as many production and catering operations as possible.

In the ERA context, Casino buys flour from Ahold's permanent supplier. Casino's co-operation within ERA appears to be mainly symbolic. One concrete step has been the sale of Safeway's and Argyll's own-brand goods in Casino shops and some of Casino's by Safeway.

In the context of AMS, it is known that Casino takes the Danish MD Foods' seasoned cream cheese, dairy products from Candia in France, paper products from Scott Paper, nappies from the French Prod'hygia, pots, pans and cutlery from Raadvad in Denmark, dry pet foods from the Franco-Belgian SCC Safari, breakfast cereals from H&C Cereals in France and packaging from the Danish firm Extrufix.

The French trade union receives no information on ERA and AMS from the management. Even the French works councils need not be consulted concerning developments in both co-operative associations.

Besides ERA and AMS, Casino and the Italian retail trade concern La Rinascente (a subsidiary of Fiat) set up a joint venture in June 1989, SMAFIN (established in Milan) to develop a supermarket chain in Italy and to co-ordinate the marketing operations of both groups and also of La Rinascente/SMA in Italy. Groupe Casino had a 35% holding in SMAFIN, while the other 65% was in the hands of La Rinascente. Casino's investment in SMAFIN was 133 million NLG. Casino left SMAFIN at the beginning of 1992. Its policy is that a minority holding must be turned into a majority one or got rid of altogether.

CONCLUSION

Groupe Casino is a thoroughly French concern, still with a considerable but waning family character (Guichard). Its main operation involve the various retail food businesses (neighbourhood shops, supermarkets and hypermarkets). It gives priority to strengthening its own position in the retail food trade in France. To this end it has tried to make major takeovers, with Rallye's as the most recent. Casino is now very under-represented only in the north-east of the country.

Casino has also had production plants virtually since its establishment, which produce for the firm's own shops and for third parties. Recently, Casino adopted a policy of getting rid of these plants.

Casino also holds an important position in the catering field in France, especially with snack bars. It is just this operation that Casino wants gradually to sell. The cafeterias under its own name are to be kept.

Outside France, Casino has its own establishments only in the USA (semi-bulk consumer shops). It is beginning to turn more towards Europe through co-operative associations. Besides its co-operation with Ahold and Argyll in ERA, Casino is also taking part with the aforementioned partners in AMS. In addition, Casino briefly entered the Italian market in co-operation with La Rinascente.

EURO-FIET

SECTION III

AMS PARTNERS

ALLKAUF

GENERAL

Allkauf is the non-food member of AMS. The firm was established in 1962 as a cash-and-carry business, then a new shop concept. In 1968 came the first SB store, a hypermarket concept which is still the firm's showpiece. The concern has since penetrated the top 20 German retail companies. It has shown strong growth, with some 300 shops selling a wide variety of products.

It was set up in Mönchengladbach and the *Land* of North Rhine-Westphalia is still its core region.

The family of the founders of Allkauf, two Viehof brothers, still control the firm. A few other shareholders were bought out in 1988, thus putting nearly 100% of the shares in the family's hands. The management is convinced that a family business is in a better position to react flexibly and rapidly to market developments.

FIELDS OF OPERATION

Allkauf runs a large number of different shop chains, but all in the consumer goods field. In 1990 its operations consisted of:

- 49 SB self-service stores;
- 2 Sellgrosse cash-and-carry businesses;
- 1 fresh fruit and vegetables centre;
- 103 Allkauf photographic shops and 48 photographic departments in the SB stores;
- 6 Alltech hi-fi shops in Belgium;
- 9 hi-fi service businesses;
- 152 travel agencies in the SB stores and photographic shops;
- 1 Tjaereborg travel centre;
- 19 optician's and fashion spectacle shops;
- 28 furniture showrooms;
- 6 Musterhaus-Standorte DIY stores.

In February, 1992, the Alltech chain in Belgium, which had meanwhile grown to 15 shops, was sold.

The top management's view is that the various fields of operation strengthen one another in the building up of a strong name and Allkauf image.

ECONOMIC PERFORMANCE

As a family firm, Allkauf is required to publish only a small part of the annual financial report. Data on economic performance are thus thin on the ground.

Turnover

The turnover has developed as shown below:

1978	2.02 thousand million NLG			
1983	4.26	"		
1988	5.04	"		
1989	5.38	"	including SB stores	3.65 thousand million NLG
1990	5.94	"		4.14
1991	6.94	"	including 1.4 thousand million from the former GDR.	

The SB stores are the most important operation with respect to turnover. Its growth is higher than the total: 13.4 and 9.9% respectively in 1990.

The centre-point in 1991 was the fast growth in the eastern *Länder*. The same is also likely for 1992 since a great deal is to be invested in eastern Germany. Out of the total planned investment of DM 300 million (335 million NLG), DM 100 million is earmarked for the eastern *Länder*. These investments are to be solely in the establishment of new SB stores.

Staff

Over the past few years staff numbers have greatly increased as a result of expansion in the former GDR. In 1988, 8,760 people worked in the various Allkauf sections, while the figures exceeded 9,000 in 1990. In 1991 there was talk of a staff of almost 14,000, 2,750 of them in the eastern *Länder*.

STRATEGIC POLICY

Although the firm began with a cash-and-carry store, the main priority has for some time been to stock a high-quality range. Quality and branded products are to be sold at a competitive price. This must be guaranteed by a selective range policy. Thus the range is Allkauf's most important strategic weapon.

Allkauf has no production plants of its own and has only a rudimentary distribution system. Only a few fresh and imported products are delivered by the firm's own distribution system. All other products are delivered to the shops directly by the manufacturer.

Since the end of 1990 the territory of the former GDR has claimed the lion's share of Allkauf's management's attention. A very large proportion of the senior management's scope for investment is directed towards it. 21 SB stores have been set up in a short time. Initially they were housed in large tents, banks and old warehouses. More permanent establishments were sought later. The number of businesses is to be increased to 25 in 1993. Their average size is 6000 m^2 and the range covers 70% foodstuffs and 30% non-food products.

The supply of products to these establishments is unclear. One source (*Frankfurter Allgemeine* dated 19th April, 1991) says that many locally produced items are to be included in the range, while according to another (*Flitsen*, May, 1990), everything will be supplied from the western part of Germany because there are said to be no adequate suppliers of the requisite quality to be found in the east.

INTERNATIONALISATION

Allkauf operates only in Germany. In 1988 it opened 6 Allkauf hi-fi shops in Flanders, Belgium, representing the first cross-border move. The intention was to make use of a foothold in Belgium to penetrate the Dutch market. The chain, which had grown to 15 establishments, was sold to the management in February, 1992. The reason for that was that the chain was not a great success and indeed was in the red. In 1991, from a turnover of 93 million NLG, the loss suffered amounted to 5.8 million NLG.

Owing to the energy needed for German reunification, new plans for internationalisation which the firm had in Spain and Portugal were put on ice.

In order nevertheless to obtain a link with developments in the rest of Europe, Allkauf became a member of AMS in July, 1990. After four months, the firm was involved in some 20 projects. They concerned non-food products which can easily be sold alongside foodstuffs, like batteries, video tapes and photographic film.

HAKON

GENERAL

Hagen-Gruppen was established in 1956 when Odd Hagen opened his first shop. The firm is still run by a member of the Hagen family. In 1991 it changed its name when the commercial operations were put into a holding company in which the Swedish ICA took a 30% interest. The remaining 70% is in the hands of Hagen-Gruppen. Since then the firm has been called Hakon.

In 1991, with a turnover of 2 thousand million NLG and a market share of 12%, Hakon held second place in Norway in terms of turnover. The market leader is Samvirkelagen (Co-op) with a market share of 23%, 1300 shops and a turnover of 4.5 thousand million. Number three is Reitan-Gruppen with a turnover of 1.9 thousand million NLG. These three firms together hold about 50% of the Norwegian market.

FIELDS OF OPERATION

Hakon concentrates almost solely on the retail food trade. It runs various supermarket chains. The most important are Rimi and Arena. Acquisitions mean that a large number of shops operated under other names, like Mauritz, KBS and MM Spar-Mat. Most of them are to be converted into Rimi or Arena shops.

An active acquisition policy has recently greatly expanded the number of shops. In 1991 there was a total of 280, while at the beginning of 1992 this number had grown to 364.

Rimi

The Rimi shops are in the discount market segment. They are set up on the Aldi concept and hence have a limited range of inexpensive items. An average Rimi shop has four tills.

At the end of 1991 Hakon ran 182 Rimi supermarkets. In the first three months of 1992 92 new establishments had been opened and three closed. A considerable number of the new establishments came from the conversion of acquired businesses. 22 shops were taken over from Alles-Pris with a turnover of 175 million NLG per annum. At the same time a few tens of KBS shops were taken over in the northern region of Norway. Some 50 shops were previously Spar-Mat businesses brought under the Hagen-Gruppen More umbrella in which Hagen Gruppen has a 52% share and Spar-Mat 48%.

Arena

The Arena supermarkets are aimed at the top market segment. There were 17 establishments in 1991.

An Arena shop includes the following departments as standard: meat, fish and delicatessen; fruit and vegetables; dairy products; dry groceries and bake-off. The central point is a wide selection of fresh items. The average Arena shop is considerably larger than a Rimi. There are on average seven tills at Arena shops.

ECONOMIC PERFORMANCE

Hakon's fast expansion has of course been reflected by a rapidly rising turnover.

Hagen Gruppen/Hakon's turnover increase 1989-1992 (in millions NLG)

	1992	1991	1990	1989
Turnover	2,350	2,075	2,035	1,075

In 1990 the Rimi chain with about 1 thousand million accounted for half the overall turnover. In that year, Arena's was 380 million. The remaining 650 million was made in supermarkets under other names. Most of the growth over the past few years has been made by the Rimi chain. Future intentions are that the Arena chain is to provide an important part of the expansion.

Hakon's profit figures are not known. The profit for 1991 is estimated at around 36 million NLG.

Hakon employed 4000 people in 1991.

STRATEGIC POLICY

Hakon's target is to increase its market share in Norway of about 12% to 30% in 1993. The market growth rate is only 1 to 2% a year and the increase will have to be achieved by acquisitions.

Despite the management's aim of making the "high-end" Arena chain responsible for growth for the near future, it is the Rimi chain which is rapidly gaining in importance. Recent takeovers and collaborations have strengthened this chain. This applies, for instance, to co-operation with Kjedesamarbeid which has given rise to the Spar-Mat shops. Kjedesamarbeid also operates Vivo and SK shops totalling 350. Neither of these chains is in the top market segment.

The co-operation does cover the extension of the supermarket concept together. A new concept seems to be going towards the top segment in the form of a chain in which fresh products and ready-prepared meals form the basis of the formula. There is in any event no question of hypermarkets since, with a population of four million, Norway is too thinly populated for them.

Hakon's further expansion does not necessarily have to take the form of takeovers.

Already some hundred franchisees operate under the Rimi flag. Hakon's interest in 37 Skotten shops owned by Butikkdrif does not imply a takeover by Hakon if a co-operation agreement can be reached in the field of purchasing and distribution.

Hakon has meanwhile heavily increased its capital base for further expansion. In 1991 ICA took a share followed in 1992 by food wholesaler Kr Hansen Engro with an unknown holding. The latter regarded its share in Hakon as part of a strategy of diversification. In the summer of 1992 Hakon started talks with two other food wholesalers, Koff and Joh Johanson, on a possible merger. If it goes through, it will produce a firm controlling 55% of foodstuffs distribution in Norway.

Koff runs various supermarket chains like Krone and Centre Mat. The latter has since made it known that it would not enter into a merger with Hakon.

INTERNATIONALISATION

Participation in AMS is for Hakon a step in the context of its expansion policy of doing more in the top market segment. For this purpose AMS is making a high-grade range available to the firm.

In international expansion Hakon is for the present looking only towards Sweden where, through its partner ICA, it has a firm foot in the door. Hakon's aim is to set up a chain of 300 Rimi shops in Sweden. Thus, by using the Rimi label, Hakon is aiming at the "low-cost" market segment.

ICA

GENERAL

ICA's foundations were laid in 1917 when 250 shopkeepers entered into an association to counterbalance the suppliers. In 1948, four such purchasing centres merged to form one large one, Inköp Centralenes Aktiebolag (ICA).

With its market share of a good 33%, ICA is the largest concern in Sweden. ICA shops are primarily to be found in country districts. Sweden has a highly uneven population distribution. A third of the 8.4 million inhabitants live in the three large cities, while the rest are spread over a large, thinly populated area. There are about 8,000 food shops in Sweden, about 3,000 of them in the ICA chain. Sweden's number two, Co-op, lags well behind with its 1,500 shops. 80% of the country shops are ICAs.

ICA is a co-operative in which the members (shopkeepers) have a decisive voice in policy making. The ICA organisation is called **ICA Förbundet** (association). Its organisation lies within **ICA Handlarnas AB,** 45% of which is held by the ICA Association and 55% by the individual shopkeepers. The shopkeepers' hold is further ensured by the stipulation that the majority of the directors must be shopkeepers. ICA Handlarnas AB has four organisations under it, each of which must be responsible for a part of the ICA operations. **ICA AB** is responsible for the head office, financial administration, public relations and other policy matters. ICA AB also provides services for individual shopkeepers, like advice on shop layout, mounting marketing campaigns, etc. The working company ICA-Förlaget AB is a publisher of (trade) periodicals and books. **ICA Partihandel AB** is responsible for distribution, purchasing and imports for all ICA shops. **ICA Detaljhandel AB** is responsible for finding and establishing new shops, financing new investments and providing technological support for the ICA shops. The fourth subsidiary is **ICA Företagen AB**. It is responsible for ICA's production plants and operations lying outside the scope of the retail food trade. These operations may be divided into four classes, viz: retail trade in glass, porcelain and clothing; food production; trading companies for fruit and vegetables; catering service.

FIELDS OF OPERATION

Retail food trade

The ICA organisation's most important operation is the running of food/grocery shops. There are about 3,000 ICA shops in all, although this number has tended to fall over the past few years. In 1989 there were already 3,350. 1,450 of them were in large cities, 1,100 in small towns and villages and 900 in the countryside. Subsequently the total number of shops dropped; there were 3,060 in 1990 and 2,950 in 1991. The fall was mainly caused by the retirement of the owner concerned, the loss of economic viability and the replacement of obsolete shops by modern ones in the immediate vicinity. New establishments have an average floor area of about 1,000 m^2, i.e. fairly small. As in Norway, the hypermarket concept is virtually unknown.

Distribution of shop area and sales share (1991)

	number	%	turnover (%)
under 400 m^2	2121	72	31
400 - 1500 m^2	724	25	50
1500 - 2500 m^2	60	2	10
over 2500 m^2	40	1	9
	2945	**100**	**100**

The table above clearly shows that it is mainly the smaller shops with a floor area of between 400 and 1500 m^2 form the backbone of the ICA organisation. They account for 50% of the total turnover.

Other retail trading

Besides food shops, ICA runs around 300 specialist shops. They are generally small (max. 250 m^2). First there are clothing shops. The 180 Lindex businesses sell children's and ladies' fashions in Sweden, Britain, Norway, Denmark and Finland. Ladies' and gents' clothing is sold under the Gulins label in 50 shops. The sale of the Lindex/Gulin shops is now under consideration because they are said not to be profitable.

Sales are also hanging over the head of the Ellos subsidiary, the largest mail-order firm in northern Europe. It was sold in 1988 and has since shown itself profitable, but turnover is stagnating.

Besides the clothing shops and mail-order firm, trade in and sales of glass and porcelain form a third operation outside the retail food trade. Subsidiary Hjalmar Blomqvist AB is a glass and porcelain wholesaler. Sales are made via the ICA shops and the 100 Duka and Onskebutikerna special businesses. Here, ICA controls 30% of the Swedish market.

Food production

Some of the products supplied by ICA to its shops are produced by it in three factories, viz: Svea Choklad AB, producing chocolate and confectionery. Most of the raw materials are imported and some of the production is exported, but mainly to neighbouring countries. ICA Rosteri AB, a coffee roasting firm. As well as various qualities of coffee it also produces the instant version. The roasting works is run in co-operation with the Norwegian Hakon Gruppen. BOB Industrier AB, producing concentrated fruit juice, ciders, jam and ready-prepared meals. The cider is also exported to Norway.

Catering

Related to the production of ready-prepared meals are ICA's catering operations. ICA supplies hotels and restaurants and holds 20% of the Swedish market.

Food trade

ICA has a major hand in the import, purchase and trade in foodstuffs. A number of specialised firms has been included in the ICA organisation for that purpose. The most important is ICA Frukt och Grönsaker AB, specialising in the purchase and distribution of fresh fruit, vegetables, potatoes and flowers. The firm's market share in Sweden in the trade in thee products is 30%. Closely linked to it is ICA Banan AB. As the name implies, it imports and ripens bananas, for which is has various highly automated ripening chambers. 30% of the Swedish banana trade passes via ICA Banan AB. The third firm in this sector of ICA is Viking Fruit AB, oriented towards the import and distribution of tropical fruit, in which ICA has a 25% holding. This firm imports tinned fruit from Thailand for four Scandinavian countries.

Miscellaneous

A remarkable firm among the others within the ICA organisation is AB Köpmannatjänst. Not only is it in charge of the planning, design and layout of the ICA shops but also produces the necessary shelves, timber plans and displays.

ECONOMIC PERFORMANCE

In turnover development a distinction is drawn between the turnover of all the ICA shops together and that of the ICA group in which the independently run ICA shops are not consolidated. The table below gives a survey.

Turnover and gross profit, 1987-1991 (in thousand of millions NLG)

	1991	**1990**	**1989**	**1988**	**1987**
ICA turnover	17.7	16.3	16.3	14.8	13.5
ICA group turnover	13.4	12.6	12.8	11.3	9.6
Gross profit (millions)	51.3	78.3	161.9	264.9	260.3

The table shows that the turnover has risen steadily over the past five years. However, the gross profit is under strong pressure. This is partly the result of sharpening competition on the Swedish market. The fall in profits is largely caused by increasing and essential investments in the core operations (food shops) and losses in both Blomqvist and Lindez/Gulins. A direct result of this is the possible sale of the last-mentioned.

The importance of foodstuffs to ICA is clear from the distribution of the turnover for 1991. 53.4 thousand million NLG were made from the sale of food and 3 thousand million NLG from that of non-food items.

Of the production and trading firms, ICA Frukt och Grönsaker AB shows a steadily increasing turnover. The table below shows the turnover of a number of production and trading firms.

Turnover of production and trading firms, 1987, 1988 and 1991 (in millions NLG)

	1991	1988	1987
BOB Industrier AB	686	578	510
Frukt och Grönsaker AB	1715	754	756
ICA Banan		227	200
ICA Roseri AB	128	127	197
AB Svea Choklad	228	174	159
Viking Fruit AB		705	

Staff

After initial fast growth, staff numbers have stabilised. Nearly 29,000 people were working in all the ICA shops in 1991, 8,800 of them full-timers and 21,000 part-timers.

ICA group staff 1987-1991

	1991	1990	1989	1988	1987
Staff	18,214	18,612	18,090	16,802	14,265

STRATEGIC POLICY

The ICA organisation is highly decentralised. The central administration is restricted to the absolute minimum. The basis is that the ICA shops are essentially run as family businesses.

The umbrella organisation provides services and products for the shops, which are free to accept them. The result is a considerable difference in the product ranges available in the various shops. It depends upon regional preferences and the policy of the shopkeeper concerned. By and large, most -- about 80% - of the products are obtained from ICA. The remaining 20% are usually bought locally and consist of perishable goods like dairy products, meat and some fresh vegetables. Despite this variation, the average ICA shop offers 5,700 different items, of which about 15% are imported.

Most important product groups by turnover in quantities

	turnover	items
Groceries and tinned goods	22%	2,100
Meat and fish	17	300
Dairy products	15	250
Non-food	7	1,400
Soap and toiletries	7	800
Other items	32	850
Total	**100%**	**5,700**

As a result of ICA's falling profits, attention has recently been strongly directed towards the conduct of the competitors and improving the efficiency of the group's own management. A result of the former consideration has been the opening of 20 new establishments around Stockholm in the discount segment of the market. This is done together with the Norwegian Rimi, Hakon-Gruppen's supermarket chain. Various competitors had already adopted the formula and ICA did not intend to lag behind. The Stockholm area is the most important in Sweden. A result of the second policy field is the introduction of computerised equipment in the shops. 50% of the shops are now connected to a single computer network so that customers holding cards can pay automatically even if they shop outside their home areas. Stocks are also ordered automatically through hand-held scanners by means of which the order can be keyed in the shop and passed on later to the distribution centres via a telephone line.

ICA held a remarkable campaign in March, 1992. The concern threatened to buy Danish dairy products after Arla, the largest Swedish dairy company with 60% of the market raised its prices. ICA's weight was eventually enough to bring the price increase down considerably.

INTERNATIONALISATION

For a few years now ICA has been conducting an actively internationally oriented policy, aiming primarily at the surrounding countries. Its opinion is that the retail food trade in northern Europe is too dispersed and that intense co-operation is necessary. Co-operation must be conducted in both purchasing and production and marketing. Examples of this policy are the joint coffee roasting plant with the Finnish Kesko; Viking Fruit, which imports tropical fruit for all the Scandinavian countries; and the 30% share in the Norwegian Hakon. ICA is helping Hakon with the establishment of 20 Rimi shops in Stockholm.

ICA is to expand into the rest of Europe via AMS and it is for that reason that ICA became a member of that association. Here it can provide two things: firstly excellent contacts with exporters of tropical products. Therefore the ICA representative in AMS is the only one who does not co-ordinate a product group but an operation (import). Secondly, ICA is considered to be the concern with the best distribution system in the world.

JERONIMO MARTINS RETAIL

GENERAL

Jeronimo Martins Retail in Portugal was established as a joint venture between Ahold and the Portuguese foodstuffs producer and distributor Jeronimo Martins & Filho S.A. It runs 40 supermarkets under the name Pingo Doce (= "Sweet Drop"). Its turnover is some 475 million NLG and it makes a profit. 2,465 people worked for Pingo Doce in 1992. 86% of the staff are women.

FIELDS OF OPERATION

The Portuguese retail food trade is widely scattered over a large number of small shops and a few hypermarket chains. Ahlqvist of Ahold's Board of Directors estimates that the organised trade forms only a third of the total. In his view, in the supermarket segment Pingo Doce has a market share of about 20-25%[1]. However, a Dutch trade paper estimates the market share as being higher, about 30%[2]. Supermarket chains are expected to show further strong growth in Portugal.

Pingo Doce began in 1979 as a chain of discount shops. In 1985 it was placed by its parent company in a joint venture with Delhaize and then began to run supermarkets. In 1987 came the takeover of 15 supermarkets of the Pao de Açucar chain.

To-day's Pingo Doce supermarkets aim at the upper end of the market and, according to Ahold, are closely comparable to what Ahold operates elsewhere. Pingo Doce supermarkets look better than those of the competitor Modelo.

Other foreign food retailers with chains in Portugal are Continente (Spain), Promodès (France), Carrefour via Euromarché (France) and SHV via Makro (Netherlands).

The parent company Jeronimo Martins & Filho S.A. was established in 1792, starting with a small food shop in Lisbon. Subsequently the firm has been mainly food-oriented. Since 1949 the firm has had a joint venture with Unilever in the production of margarine, soap and detergents, ice cream and other deep-frozen products. Jeronimo has a 40% holding in Lever. It was established in 1991 that Lever's production would remain in Portugal even after the unification of Europe. In addition, the group has a 26% holding in foodstuffs producer Fima which, in turn, is the full owner of foodstuffs producer Victor Guedes. Fima/V. Guedes has seen its turnover in margarine falling for years, but sales of tea, sauces, fruit juices and cheese have risen sharply. Finally, the group has a 26% holding in market leader Iglo.

In addition, Jeronimo Martins has a marketing services firm, Jeronimo Martins Distribuiçao (JMD), which is the division responsible for foreign representations.

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1 Interview with Mr. Ahlqvist by Wibe Drijver and Marijke Smit, 16th November, 1992.

2 FM International, September, 1992

In the field of distribution, the group has a majority holding in Pingo Doce which, in turn, has a 60% share in Supergarbe. The group also has a 60% holding in Recheio e Arminho, operating in the cash and carry sector. Since 1991 the other 40% have been in the hands of the British C&C group Booker. Finally, the group has a 1% stake in Hussel, a chain of specialist chocolate shops, in which the German enterprise Douglas AG has a 40% share (25% before 1991).

ECONOMIC PERFORMANCE

Jeronimo Martins & Filho S.A. attained a consolidated turnover in 1991 of 1.2 thousand million NLG and a profit of 27 million NLG. Pingo Doce's turnover in 1991 was some 475 million NLG and the net profit was 9.6 million NLG.

STRATEGIC POLICY

From 1979 Jeronimo Martins & Filho ran the Pingo Doce supermarket chain together with the Belgian Delhaize concern, with the latter having a minority holding (43.6%). Delhaize's dissatisfaction with the direction taken by Pingo Doce, especially the plan to start running hypermarkets, and the small influence which Delhaize could exert recently led to the latter's sale of its interest in Jeronimo Martins & Filho for 95 million NLG.

Shortly afterwards Ahold put 100 million NLG on the table to a 49% interest. The majority holding remained in the hands of the Portuguese enterprise. It was agreed that decisions on important matters would be taken by consensus. Jeronimo Martins & Filho provided knowledge of the Portuguese market while Ahold contributed expertise on retail trade, distribution, logistics and the like. Ahold's Eurodesk provided support in the completion of the shareholding.

At the end of 1992 there were 32 supermarkets with a total sales area of some 40,000 m^2. In 1991 the chain experienced problems in establishing plans and rental and/or leasing. Nearly a quarter of the shops have been modernised and fitted with micro-electronics. In 1992 the number of supermarkets rose to 40. There are to be 80 shops within seven years.

Unlike Delhaize, Ahold is not against plans to start up Pingo Doce hypermarkets in Portugal. As part of the reorganisation of Techeia e Arminho, a purchasing centre was set up in 1991 in which Pingo Doce is also involved.

Ahold has known Jeronimo Martins & Filho as a manufacturer for some 30 years. It is not expected that the co-operation in the field of retail trade will mean that Ahold will be taking more products from Martins/Unilever. Ahold's production plants are in contact with Jeronimo Martins Retail in order to see whether supplies to Pingo Doce can be made at a competitive price.

INTERNATIONALISATION

Pingo Doce is a Portuguese firm with a substantial domestic participation. The Belgian partner, Delhaize, has recently been supplanted by the Dutch Ahold concern.

Jeronimo Martins Retail has no establishments outside Portugal. It is clear that the firm will direct its prime attentions to improvement of the market position at home.

At the end of 1992 Jeronimo Martins Retail became a member of Associated Market Services. In fact it took over the 5% holding in AMS of the Danish Supermarked on the latter's withdrawal. This new development means in fact that Ahold's stake in AMS has risen.

CONCLUSION

Jeronimo Martins Retail is already strong on the Portuguese retail food market and seems to have good prospects.

It is still too early to estimate the importance of this Portuguese enterprise in the AMS.

KESKO OY

GENERAL

Kesko celebrated 50 years of existence in 1990. In that time it has become Finland's leading retailer. It operates in a wide variety of fields including food production, the provision of catering services, the sale of agricultural machinery (tractors, threshing machines, cooling equipment), artificial fertiliser, cars, electronics, shoes and clothing, outboard motors, floor coverings, etc. Many of these products are delivered directly to the consumer. Most are distributed via an extensive network of "K shops". By far the largest number of these K shops is oriented towards the sale of foodstuffs and related items.

FIELDS OF OPERATION

The Kesko Corporation consists of three divisions, Foodstuffs (FS), Agricultural & Builders' Supplies (ABS) and Non-Food (NF). In 1991 they accounted for 55, 35 and 10% of the turnover respectively. In addition there is a number of central departments which can be called upon by other bodies than the divisions as well. The divisions are responsible for producing goods and supplying services. The most important operations of the various divisions are:

FS processed and tinned fruit and vegetables, fresh fruit and vegetables, coffee roasted in-house, groceries, bread, catering meals for 40,000 customers (restaurants, cafés, kiosks, fast-food outlets, etc)

ABS cooling and spraying equipment, cattle fodder, harvesters, tractors, fork-lift trucks, building elevators, floor coverings, metal pipes and components, dealing in Volkswagen, Audi and Seat cars

NF fashion, shoes, sports goods, outboard motors, audio and video cassette tapes, TV and hi-fi equipment.

The most important customers of the divisions and central departments are various chains of shops, totalling nearly 3,100 establishments in 1991. These K shops are relatively small independent ones run as family businesses. A shopkeeper may apply for membership of the Association of Finnish Retailers and to become a Kesko shareholder. If the application is accepted, the shop is awarded the K logo and has the Kesko concern's products and services supplied. The services include courses run by the K training institute, bookkeeping/administrative services and advice on marketing and publicity campaigns. Not all supplies need to be obtained from Kesko. About half of the total turnover of the K shops consisted of goods supplied by Kesko, and about three quarters of the foodstuffs and groceries. All the management and shareholders are Finns. Kesko recently began a joint venture with the Swedish ICA.

Retail food trade

Kesko's sales are mainly made via K shops. That is certainly true for the FS division which, besides sales to shops, has sales channels only as a caterer. The foodstuffs trade is primarily concentrated in the FS division.

K shop network

	1991			1990			1989		
	a	b	c	a	b	c	a	b	c
FS									
city market	20	1	9	21	1	8	17	1	7
stores	42	1	10	49	2	9	47	2	9
supermarkets	400	13	26	348	11	23	352	10	23
neighbourhood shops	809	26	17	880	26	16	949	28	17
village shops	715	23	6	730	22	6	761	23	6
country shops	37	1	3	67	2	4	73	2	4
mobile shops	179	6	1	195	6	1	217	6	1
Total	**2202**	**71**	**72**	**2290**	**70**	**67**	**2416**	**71**	**67**
ABS	330	11	22	273	8	24	270	7	24
NF	452	15	6	485	15	6	487	14	6
Misc.	113	4	1	239	7	3	272	8	3
Grand Total	**3097**	**100**	**100**	**3287**	**100**	**100**	**3445**	**100**	**100**

a: Number of establishments
b: Percentage of total number of establishments
c: Percentage of total sales

Kesko provides no further information broken down by the various divisions or chains of shops. Here are some data relating to all K shops: over the period 1989-1991 the K shops' turnover was 15.4, 16.5 and 16.2 thousand million; during this time the K shops took 8.1, 8.5 and 8.3 thousand millionsworth of products and services from Kesko. Investments in 1989/91 amounted to 470, 479 and 384 million. During this time hundreds of K shops were renovated. The sales area was extended during that period by 38,000, 105,000 and 40,000 m^2.

ECONOMIC PERFORMANCE

Kesko exhibited steady growth in the period from 1987 to 1990, but 1991 was a poor year for turnover. The profit increased throughout the period.

Essential data on Kesko Corporation 1987-1991 (in millions NLG)

	1991	**1990**	**1989**	**1988**	**1987**
Net turnover	13,672	14,656	14,176	12,541	11,690
Operating result	229	258	273	352	333
Net profit	144	122	81	771	68

The figures above show that, while the turnover (and the market share) rose, the operating result was under pressure. Expressed as percentages, the operating result fell throughout the period. The course of the turnover, broken down by the various divisions, shows:

Kesko's turnover by divisions, 1988-1991 (in millions NLG)

	1991	1990	1989	1988
FS:				
Groceries	5,095	4,727	4,386	3,984
Fresh foods	6,554	6,506	6,037	5,794
Catering:				
- wholesale	2,446	2,575	2,556	2,369
- cash & carry	1,500	1,457	1,393	1,258
Total	15,594	15,165	14,372	13,405
ABS	9,885	12,296	12,385	10,212
NF	2,821	2,832	2,558	2,282

The ABS division is subject to considerable fluctuation owing to the Finnish government's agricultural and environmental policy. The sale of agricultural machinery fell owing to limitations in the forest cover and the use of artificial fertiliser containing phosphates. Then the reduction in farmers' incomes was reflected by a considerable drop in tractor purchases and thus by a fall in the turnover of the machine/car product group.

Kesko has about 45,000 shareholders, the largest of which (Union Bank of Finland) had a holding of 7.5% on 31.12.1991.

Basic data on stock market fluctuations (in millions NLG)

	1991	1990	1989	1988	1987
Share capital	433	433	432	360	240
Stock market value	1581	1905	2440	1680	1003
Issue	--	1	72	120	--
Dividend (%)	12	14	19	19	17

Employees

Staff numbers are broken down into the staff of Kesko (head office and operative companies) and the K shops.

Staff numbers

	1991	1990	1989	1988	1987
Kesko	7,983	8,111	7,704	7,600	7,800
K shops (incl. owners)	27,937	29,555	29,248		
p.c. part-timers	8,562	9,076	8,662		
Owners	2,598	2,716	2,794		

The staff of Kesko is augmented every summer by a large number of youngsters on temporary engagements. Over the past three years (1989-1991) there were 680, 592 and 301 respectively.

The K Group Training Institute has provided a constant number of 750 courses a year over the past three years. They were attended by some 9,000 people, 70% of them from the K shops and 30% from Kesko itself. The total duration of the courses was some 25,000 days.

STRATEGIC POLICY

Own brand/production firms

Kesko sells groceries under various own brands. The most important one is "Pirkka", the best-known one in Finland. In 1991, 300 products were sold under this brand as against only 200 in 1989. In addition there are the brands "Diva" (for tinned fruit from Thailand) and "Star" (fresh vegetables).

Kesko has its own coffee roasting plant. In 1989 is was reopened after a thorough technical overhaul. Production is about 8.5 million kg a year. In 1991 the roasting plant was included in a joint venture with the Swedish ICA.

Logistics

Kesko's distribution system has been fundamentally renovated over the past few years. Every year notice is given of the reallocation of (parts of) stores between the various divisions.

An experiment is being conducted in the Helsinki area in making deliveries in the evenings, early mornings and Saturdays.

Over most of Finland the climate is such that fresh products need no or virtually no artificial refrigeration.

The quantity of goods to be moved has increased since Kesko's participation in AMS. Its membership is quoted as the reason for a growth in the quantity of imported goods.

Information technology

A new Unisys 2200/622 mainframe computer was acquired in 1989. The intention is to automate firstly distribution and order processing and secondly sales and other related operations. There is currently a network in Kesko of 2700 terminals; a change in the organisational structure has resulted in a fall of about 300 in the number of workstations.

In 1991 an EDP system was set up through which 33 suppliers and 50 customers are directly connected to the Kesko network. Ordering, order processing and payment are all integrated into the system.

330 of the K shops have installed EPOS systems.

INTERNATIONALISATION

Kesko's operations are performed solely in Finland, with a few exceptions. First of all, the coffee roasting plant was incorporated in 1991 into Viking Coffee Ltd., a joint venture between Kesko and ICA. The plant is in Finland and roasts coffee for both the Finnish and Swedish markets. Another exception is Viking Fruit AB, set up in the autumn of 1989. This firm is concerned with the import of tinned fruit from Thailand for four Scandinavian countries. One firm from each country is part-owner to the extent of 25%, including Kesko and ICA.

Within the FS divisions, a contact body has been set up at management level for contacts with AMS. Kesko is taking part in an EDP project within AMS.

Turnover per division 1988-1991 (in millions NLG)

	1991	**1990**	**1989**	**1988**
FS				
Groceries	5,095	4,727	4,386	3,984
Fresh foods	6,554	6,406	6,037	5,794
Catering:				
- wholesale	2,446	2,575	2,556	2,369
- cash & carry	1,500	1,457	1,393	1,258
Tota	15,594	15,165	14,372	13,405
ABS				
Agricultural machinery	3,526	3,876	3,467	2,849
Machines/cars	1,981	2,838	3,079	2,538
Building materials	1,850	2,406	2,524	2,034
Interior decoration	1,621	1,875	1,937	1,661
Steel/metals	908	1,301	1,379	1,130
Total	9,885	12,296	12,385	10,212
NF				
Footwear/clothing	1,211	1,222	1,080	936
Domestic products	628	643	596	561
Leisure products	680	658	595	544
Audio/video	220	224	212	170
Shop/office items	82	85	76	71
Total	**2,821**	**2,832**	**2,558**	**2,282**

K shop network by numbers and sales, 1989-1991

	1991			1990			1989		
	titles: n!	**%**	**% sales**	**titles: n!**	**%**	**% sales**	**titles: n!**	**%**	**% sales**
FS									
City market	20	1	9	21	1	8	17	1	7
Multiple stores	42	1	10	49	2	9	47	2	9
Supermarkets	400	13	26	348	11	23	352	10	23
Neighbourhood shops	809	26	17	880	26	16	949	28	17
Village shops	715	23	6	730	22	6	761	23	6
Country shops	37	1	3	67	2	4	73	2	4
Mobile shops	179	6	1	195	6	1	217	6	1
Total	2.202	71	72	2.290	70	79	2.416	71	67
ABS									
K-hardware	122	4	7	105	3	8	105	3	8
K-ABS shops	150	5	9	118	4	10	116	3	10
K-agricultural shops	58	2	6	50	1	6	49	1	6
Total	330	11	22	273	8	24	270	7	24
NF									
Kesport sports	89	3	2	99	3	2	92	3	2
Vaatehuone fashions	79	3	1	86	3	1	83	2	1
K-shoe/Andiamo	193	6	1	207	6	1	223	6	1
Musta Pörssi	91	3	2	93	3	2	89	3	2
Total	452	15	6	485	15	6	487	14	6
Others Total	113	4	1	239	7	3	272	8	3
Grand Total	**3.097**	**100**	**100**	**3.287**	**100**	**100**	**3.445**	**100**	**100**

MERCADONA

GENERAL

Mercadona's head office is in Valencia, Spain. The first branches were opened in 1977. Mercadona began as the Roigs' family firm. Juan Roig is the majority shareholder and director.

Mercadona now has some 150 supermarkets, most of them in the east and centre of the country. Turnover in 1991 was about 2.6 thousand million NLG. The firm employs an estimated 10,300 people.

FIELDS OF OPERATION

Mercadona operates only in Spain and is concentrated in Valencia (116 of the 149 shops) At the beginning of 1992 there were also supermarkets in Murcia (10), Madrid (9), Castilla La Mancha (5), the Balearics (6) and the Canaries (3). Mercadona wants to operate in more Spanish provinces.

The firm owns the Forvasa roll shop and bakery and the Llamorel mineral water bottling plant which Juan Roig tried in vain to sell in 1991. In addition, Mercadona has a share in the Antena 3 TV station. At the beginning of 1992 the Spanish enterprise Banesto was negotiating with Mercadona over the sale of its 6% holding in Antena 3 TV. The nominal value of this holding is about 23 million. It is regarded as a healthy financial investment; Juan Roig is a member of the Board of this station.

According to him, Mercadona must concentrate on its core operation, the retail food trade.

At the end of 1990 Fernando Roig, director of the Pamesa (Pavimentos Mediteraneos) tile works became the majority shareholder in the firm, while Juan Roig withdrew completely.

Mercadona's main operation is clearly trade in foodstuffs through supermarkets, which is run in a dynamic market.

When Mercadona began with supermarkets in Spain in 1977 it was a relatively new thing. Hypermarkets, largely in French hands, were better established. Supermarkets have gained considerable ground over the past ten years. In 1980 the supermarkets' market share was 19%; it was already 29% in 1987. In 1989 95% of the total number of points of sale for foodstuffs consisted of small businesses. Supermarkets and hypermarkets together account for 46% of total turnover.

The Spanish spent about 126 thousand million NLG in 1990 on food and drink, i.e. about 3,242 per person per year. 75% is spent on domestic products, 23% in retail catering and 2% in institutional catering.

The Spanish retail trade market is highly fragmented. The five largest retail groups make up about 30% of the total while the top 50 account for about 55% of the turnover.

Over the last few years the picture has changed somewhat through the opening of new supermarkets, takeovers and joint ventures, resulting in greater concentration. The Spanish retail trade market is highly turbulent. In 1990, 23 new hypermarkets and 700 other new shops were opened; the second largest purchasing group SOGECO has disappeared, 35 businesses have closed and 30 other enterprises have changed owners. In Spain there is a higher concentration of self-service supermarkets and hypermarkets in urban areas. El Corte Ingles, one of the most important Spanish multiple store chains, has recently started to run hypermarkets under the name Hipercor. Medium-sized supermarket chains (with a floor area of between 2,000 and 3,000 square metres), like Caprabo, Cobreros and Eroski, successfully expanded in 1990. Mercadona is regarded by foreign analysts as "one of Spain's success stories" (Food Manufacture: Spotlight on Spain, February 1992).

In number of shops, Grupo Continente was the largest retail food trader in Spain in 1990 with 946 shops. It was followed by Grupo Digsa with 279, Grupo Cofidisia (not in the appendix) with 170 (95,411 square metres), Grupo Eroski and, in fifth place, Mercadona. From the turnover point of view, Mercadona was fifth equal in 1990 in the list of retail food traders.

In 1989 Mercadona had a market share of 4% and was thus twice as large as Eroski, Spain's second supermarket chain. If we look only at the supermarkets in Spain, Mercadona was also the market leader in 1992.

The Spanish consumer is following the trend towards using healthier foodstuffs. For a little while now more mineral water and beer than wine has been drunk in Spain.

The Spanish consumer buys few ready-prepared meals and many fresh products. Only 12% of the products sold are "own brand" items, but growth is expected here.

Jose Ribera, the Spanish co-ordinator for Mercadona in AMS (in 1990), says: "A lot of paella, rice with fish or rabbit and chicken, is eaten here. Olive oil is used in salads and sunflower oil for cooking. Sauces are not popular here." (Flitsen, June 1990).

In accordance with Spanish eating habits, Mercadona's supermarkets sell a great deal of fish (of a wide variety) and various hams.

In 1990 each Mercadona supermarket had the seven departments below:

- fish,
- bakery,
- meat, meat products and delicatessen,
- dairy products,
- dry groceries,
- preserved meat and fish and dried fruit,
- tills (10 to 12 per shop).

The lack of a potato, vegetable and fruit department is noteworthy. Mercadona sets great price on service and quality. Its supermarkets are slightly dearer than the hypermarkets. All Mercadona's supermarkets are air-conditioned and have handbag lockers. In 1990 all the tills were fitted with scanning equipment.

Mercadona has an electronic payment system. The Mercadona payment pass was introduced in 1986: any customer with a bank certificate may apply for one. Purchases of between 90 NLG and 450 NLG may be made wih the pass. In 1990, 44,000 customers held one. Every month the periodical "Dona", containing 10 pages about Mercadona, is delivered to their homes.

In addition, regular meetings are held with customers in each supermarket. Customers are invited to them at random to give their views, over coffee and cakes, about shopping at Mercadona. A free telephone number for customers' suggestions and complaints was made available in 1991.

Mercadona customers may also have their purchases delivered; orders may be given by telephone and home deliveries cost 6.80 in 1990. They also have the facility, if they do their own shopping, of having their purchases delivered free of charge to their homes for amounts of over 125 NLG in 1990; for lower sums, a charge of 5.50 NLG is made.

ECONOMIC PERFORMANCE

Mercadona's turnover in 1989 was 1.9 thousand million NLG from 117 supermarkets. In 1990 it was 2.2 thousand million NLG from 138 supermarkets, 119 of them in the province of Valencia. The average sales area is 1,300 square metres in which 9,000 people are employed. Turnover increased to 2.6 thousand million NLG in 1991. Cash-flow is stable at 107 million NLG. The expected turnover and cash-flow for 1992 are expected to be 3 thousand million NLG and 172 million NLG respectively. Investments to the extent of about 90 million NLG are to be made, particularly in the renovation of existing shops. 1992 is to be the "productivity year". Profitability must rise.

Until the end of 1990 Mercadona was owned by Juan Roig, his brother Fernando and their two sisters, Trinidad and Amparo. The sisters then sold their holdings to Juan and Fernando reduced his, thus giving Juan a majority holding.

At present Juan Roig holds 60% of the shares, his wife Hortensia Herrero 20%, his brother Fernando Roig and his wife Elena Negueroles jointly 10%. The remaining 10% has probably been sold by Fernando Roig to Mercadona itself.

In 1990 Juan Roig was chairman of the Board of Directors of Mercadona, Manual de Juan was financial manager and Manuel Lloriente was shops manager. For the first time there were non-Roigs on the Mercadona board.

STRATEGIC OPERATING POLICY

At the end of 1990 and the beginning of 1991, Juan Roig announced that investments had to be made in the modernisation and extension of Mercadona. The firm wants to open 180 new supermarkets by 1996 at a cost of some 716 million NLG; the turnover in 1995 is to be 7.2 thousand million NLG.

The modernisation and expansion plan cannot be fully financed from cash flow. Roig says that he is thinking of taking on a financial partner or, in 4 to 5 years' time, putting the firm on the stock exchange. The partner would have to be able to buy between 5 and 15% of the shares and would be entitled to be represented on the Board. He/she would not need to provide any technology and, although represented on the Board, would not have to deal with day-to-day management. He/she would preferably be Spanish.

It seems difficult to attract such a financier. The price would probably be too high. Mercadona estimates the value of its own business at 1.8 thousand million NLG, but others in the sector think that it is actually worth only half that. Banesto does evince interest in various retail trade outlets, including Mercadona, Eroski-Consum (which wants to invest 1.8 thousand million pesetas) and the Portuguese group Entreposto, which recently obtained a 100% holding in the Jumbo and Expresso chains. However, Banesto wants to obtain a majority holding and the retail firms are not in favour. Banesto's takeovers lie in the fields of the retail trade, cement, building and communications. At the beginning of 1992 Juan Roig let it be known that the idea of finding a financial partner had been dropped because it had been impossible to find any partner who actually could invest who did not want a hand in management.

In the recent past, Mercadona has grown through opening its own shops at a rapid rate and by a number of takeovers. In 1989 Superette's and Gran Union's shops were taken over, as were Cesta de Distribucion, Davila and Sugur. In January, 1991, Mercadona bought Aldhisa (Alicantina de Hiper) established in Gandia, Valencia, a firm with 11 supermarkets and 1 hypermarket, all under the Dinos brand, in the provinces of Valencia and Alicante. Aldhisa has a total sales area of about 25,000 square metres. In 1990 its turnover was some 39 million NLG and it employed 430 people. Mercadona bought Aldhisa for about 25 million NLG from the Rodena family which owns the real estate included in Comhisa (Comercial de Hiper), which is letting the premises to Mercadona.

In February, 1991, Mercadona bought a small firm, Supermercados Aguilar with two establishments in Alicante (Javea and Pedreguer). The two supermarkets have together a sales area of 4,500 square metres. Mercadona decided to close the supermarket in Javea.

In the years to come Mercadona especially wants to expand by opening new supermarkets and less by fresh takeovers. Juan Roig's experience has taught him that it is easier to start from scratch than to expand through takeovers. Nevertheless, he is not discounting the idea of further takeovers. If there are firms which are very similar to Mercadona, like Alfaro or Caprabo, Mercadona would indeed like to take them over.

Probably of necessity, since no partner has been found, Mercadona is to consolidate in 1992. Productivity must be increased and the financial structure strengthened at the expense of rapid growth. In 1992 there are to be only 10 additional supermarkets, 3 of them in areas where Mercadona has not yet operated: Aragon, Andalusia and Catalonia. The new shops will have an average sales area of 1,500 metres. Many new openings are to take place in 1993 and an examination is to be made to see whether places can be found in the new areas.

INTERNATIONALISATION

So far Mercadona has operated only on the Spanish market. In October, 1989, it joined Associated Marketing Services owing to the expected advantages from the large scale and exchange of knowledge, experience and contacts. In June, 1990, Jose Ribeira, Mercadona's AMS co-ordinator, said that no AMS project had yet been concluded in which Mercadona was taking part. The potato and wine project could be promising. He expected to come to an agreement with a Dutch supplier of chips.

In 1992 Ahold chief Everaert revealed that he had frequently let Mercadona know that Ahold would like to take the firm over (Het Financiale Dagblad, 9th September, 1992).

CONCLUSION

Mercadona is primarily directed towards Spain where the firm forms the leading supermarket chain. In its own country, existing supermarkets are being modernised and the number of shops increased slightly. So far, Mercadona is strong in the east and centre of the country. It wants to make a start in other areas as well in the near future.

In the recent past a number of Spanish supermarket firms has been taken over. The concern is not at the moment deliberately aiming at takeovers but does not exclude the idea completely. Getting rid of secondary operations (bottling) has not been very successful, nor has finding a purely financial partner. In 1992 Mercadona mainly wants to increase productivity and strengthen the financial structure. It seems only to be slightly Europe-oriented.

Spain's largest food retailers, 1990

	Shops	Area (m2)	Turnover (1,000M)
El Corte Inglès			11.6
Pryca			5.6
Continente	946	426,221	4.1
Alcampo			3.3
Mercadona	139	189,193	2.3
DIA			2.3
Hipercor			2.1
Eroski	158	129,683	1.4
Digsa	279	110,427	1.3
Makro			1.2

Association: Food Manufacture: Spotlight on Spain, February, 1992
Actualidad Económica: Con los carros llenos, April, 1992

MIGROS

GENERAL

Gottlieb Duttweiler set Migros up in 1925. A few model T Fords ran around Zurich with only six different products, sugar, coffee, rice, pasta, coconut oil and washing powder. The lorries all took the same routes every day with a limited number of stops. In 1941 all Migros trading firms became co-operatives.

There are now a Migros Association and a Federation of Migros Co-operatives (FMC). The Migros Association consists of twelve regional Migros co-operatives which sell foodstuffs and other products to the consumer via their network of shops. The Migros Association covers not only shops but also production plants, service firms and real estate companies. The Federation controls marketing, production, planning, co-ordination and finance. The FMC also deals with matters like advertising, advice, administration and laboratory tests.

In 1991 the Federation's turnover was 5 thousand million NLG and that of the Association 19. The net profits were 79 and 359 million NLG respectively. In that year the Federation employed 1,316 people (1,158 fte) and the Association 71,400 (51,203 fte). Some 57% of the staff are women (51% in fte). Migros has a high staff turnover and has difficulties in recruiting people.

FIELDS OF OPERATION

Migros operates in:

1. retail trade in 549 fixed and 90 travelling shops;
2. food production in 9 plants;
3. production of cosmetics, detergents and furniture in 3 plants;
4. provision of services in 9 firms, including a bank, an insurance company, petrol pumps and a travel agency;
5. a joint venture in a shipping company;
6. foundations, social services, education and research;
7. real estate companies (1991: 24 firms).

Retail trade

Migros is the leading Swiss retailer, with Coop second. Migros' share of the retail trade is 15.2% (1991), with 23% in food and 8.5% in other products. Its total retail turnover is 15 thousand million NLG, most of it from the Migros shops, but there are also restaurants and snack bars, specialist shops, filling stations, etc.

There are various kinds of shop:

- MMM Migros Centres (turnover 3.6 thousand million NLG; 23%);
- MM Migros Markets (6.5; 44%);
- M shops (2.6; 17%);
- S (small) shops (500 million; 4%);
- travelling shops (100 million; 1%).

In 1991 the travelling shops served 1,432 villages.

Of the 12 regional Migros co-operatives, Zurich has far and away the highest turnover at 2.6 thousand million NLG in 1991. The total sales area is 754,485 sq. m. In 1991 two thirds of the foodstuffs sold by FMC or directly by the co-operatives were domestic products. 33% of the non-food products were Swiss (this percentage is falling). Most non-food products come from Europe (48%, with Germany as the most important supplier) and the far east (20%). About a quarter of the total retail turnover is made from products from its own plants.

In 1990 Migros sold about 5,000 food products and 25,000 others. For a good 15 years now, Migros has been selling environmentally friendly agricultural products through its Migros-Sana programme, concerning mainly fruit, vegetables and potatoes. 16 Migros agronomists inspect about 1,700 producers for environmental friendliness. 50-60% of all Swiss food products sold by Migros are in the Migros-Sana range.

In the field of non-food products, Migros' range includes such varied items as clothing, personal adornment, cameras, watches, bicycles (Taiwan), tools (China) and (office) furniture, some under its own brand. About 90% of all items (food and non-food) are own brands. Migros has exclusive sales rights in the country for some A brands, e.g. Pepsi Cola (1990).

Migros prides itself on being one of the cheapest shopping chains in Switzerland. In 1990, almost 770 food products were more expensive at Coop than in Migros and almost 500 at Denner. In the non-food field, Migros is an average of 15% cheaper in 160 items. Migros was the price leader in 1991, too.

Production

Migros has the production plants below:
Micarna
Micarna AG in Bazenheid: meat and meat products.
Micarna SA in Courtepin: meat, meat products and chicken. The two Micarna works are usually regarded as one production plant.

Optigal SA in Lausanne: production of poultry and organic fertiliser.

Jowa AG in Vloketswil: production of ordinary and special bread, pasta, cakes, confectionery, tarts, deep-frozen products. Production in bakeries in 9 different places, 1 semolina and 1 pasta works. Bread forms some 70% of the turnover of all bakery items. There was considerable investment in 1990 in the extension of a number of regional bakeries and the semolina and pasta works.

Chocolat Frey in Buchs/AG: production of chocolate, confectionery, sweets, chewing gum, cocoa powder and semi-finished products. In 1990 Marks & Spencer, Frey's largest foreign customer, for the first time bought over 10 million Swiss francs'worth, or 13 million NLG. In that year, 92 million NLG were invested in expanding the sweets line.

Production AG Meilen (*MIDOR*) in Meilen. Production of biscuits, toast,ices and powdered desserts. The works were renovated and extended over six floors in 1990. In that year, a new Computer Integrated Manufacturing process (CIM) oven was commissioned for the production of cream-filled biscuits, and ice-production machines were installed. Meilen is the first Swiss ice works with an installation for the ecological disposal of waste water.

Bischofszell Canning Factory AG in Bischofszell. Production of tinned fruit, vegetables and meat; fruit juices and iced tea; deep-frozen vegetables and ready-prepared meals; jam; tomato and potato products. Syrup production was moved in 1990 to Aproz, when a start was also made on expanding tinned meat facilities. The cultivated land for peas and beans was reduced by 25% to 550 ha in 1990.

Conserves Estavayer SA in Estavayer-le-Lac. Production of dairy products, tinned vegetables, ready-prepared meals, deep-frozen products, mayonnaise and sauces. In 1990 an average of 1.5 million products were delivered, two thirds of them by rail. In 1991 the production of 30 items (including 21 preserved goods) was stopped; 24 new products were introduced. Yoghourt in 6-packs is the best seller. In the same year a contract was concluded with a Moroccan firm for the de-alcoholisation of wine.*Seba Aproz in Aproz. Production of mineral water, fruit-flavoured beverages, fruit juices and fruit(-flavoured) syrups. 1990 saw the introduction of "part-crates" (half-crates which can be hooked together) and the PET bottle was tested. Stress was laid on the fact that the staff turnover in 1990 and 1991 was only 5%.

Fruidor SA in Chez-le-Bart. Production of grapefruit and apple juice, spiced, wine and table vinegar. In 1991 Fruidor attained a 38% market share in table vinegar.*Mibelle AG in Buchs/AG. Production of all kinds of items for physical care like soap, shampoo, toothpaste, bubble-bath, gels and deodorants. Mibelle succeeded in 1990 in meeting the requirements of quality certificate SN ISO 9001/EN 2900.

MIFA in Frenkendorf. Production of washing and cleaning agents, table margarine, cooking oil and cooking and frying fat.

Dietiker AG in Stein am Rhein. Production of tables and chairs for domestic use and office furniture. A spray painting robot for chairs and an automatic painting machine for tables were introduced in 1990. In that year exports to Germany rose. Since December 1991 Dietiker has been meeting the ISO standard for chairs. At the same time the firm obtained a majority holding in a Hungarian firm and part of chair production is being transferred to Hungary.

Services and joint ventures

Migros has provided services in many fields to break established monopolies. This has been done with a bank, an insurance company, a bookshop, a travel agency and filling stations. Migros owns the following service companies (fully, unless otherwise stated):

The Migros Bank in Zurich. Has 27 branches in Switzerland. Nearly 70% of the balance sheet total comes from mortgages. There is also a Migros Bank in Düsseldorf.

Secura Insurance Companies in Zurich. Provides insurance on: property, legal liability, life, motor and health costs. The premium income in 1991 was 498 million NLG, 334 of that from general insurances, almost 150 from life insurance and nearly 16 from health insurance.

Ex Libris AG in Dietikon. Sells books and records via 50 Ex Libris shops and via book and record clubs.

Hotelplan International Travel Organisation AG in Zurich. Sells holiday and travel arrangements and runs hotels and holiday homes. There are 80 travel agencies in Switzerland. The consolidated turnover is about 1.3 thousand million NLG (1991) of which Hotelplan Switzerland accounts for 703 million NLG and subsidiaries abroad (including Interhome and Exco Travel) almost 723 million NLG. 1,400 people are employed, while this number rises to 2,200 in the high season. In 1990 Hotelplan was among the top 10 European travel firms; it runs particularly well in Britain, the Netherlands and Switzerland.

Migrol Co-operative Society in Zurich. Had a chain of 283 filling stations in 1991 (some of them with repair workshops etc.).

M-Informatics AG in Dietikon. Designs software, develops, sells and provides advice on computer systems. The firm is continually being reorganised. A loss was still being made in 1990 but a profit was made in 1991.

Limmatdruck AG in Spreitenbach. Prints and publishes Migros periodicals and produces printed and packaging material. A decision was taken in the autumn of 1991 to make no further investment in the firm but to seek collaboration with third parties for printing Migros publications.

Swiss Shipping and Neptune AG (SRN Alpina) in Basle is a shipping company providing transport between Basle and the mouth of the Rhine. Migros has a 60% holding in SRN. In 1991 the SRN Alpina Group bought two foreign firms, Neptun NV in Antwerp and TTC Tank-Transport in Hamburg.

Zurich Shipping Company AG in Birsfelden. Charters two inland vessels to SRN.

Mifroma SA in Ursy. Deals in cheese: purchase, storage and packaging.

Migros Enterprises Birsfelden AG (M-BB) in Birsfelden. Roasts and packs coffee and peanuts; washes, mixes and packs tea; dries fruit and vegetables; has storage and customs facilities.

Migros Distribution Center Neuendorf AG (MVN) in Neuendorf. Stores non-food and deep-frozen items and delivers them; also packs flowers and eggs.

Cold Storage Warehouse AG in St. Margrethen is a storage centre for deep-frozen foods and raw materials; has customs facilities.

Monte Generoso Railway AG (MG) in Capolago. Runs a small railway line in the summer. Carried about 70,000 passengers in 1991.

Probag Environmental Technology AG in Dietikon deals with environmental research and advice.

Riseria Taverne SA in Taverne refines rice and stores goods.

Storage and Transport GmbH (LTW) in Weil am Rhein, Germany: tank storage and labelling.

ECONOMIC PERFORMANCE

The turnover of both the Federation of Migros Co-operatives (FMC) and the Migros Association is increasing every year. That of the FMC grew by 4.5% in 1991 to almost 5 thousand million NLG and that of the Association by 8% to 19 thousand million NLG. 15 thousand million NLG of the turnover arises from Migros' retail trade and about 3.6 thousand million NLG from the production plants. Most of the rest is provided by the service concerns. (See appendix for the turnover, result and number of employees in the production and service companies.)

Structure

In 1991 the Migros Association had 1,543,569 co-operative members. In a vote they have the final word.

The 12 regional co-operatives have Co-operative Councils and a Board of Management. 100 delegates are selected from the Co-operative Councils for the Delegates' Assembly, the "parliament" of the Federation of Migros Co-operatives. The Assembly also consists of 12 representatives of the Board of Management of the regional co-operatives and a chairman. The Board of Management of the Federation is elected by the members and numbers 26 to 33 people, 5 of whom form the Executive Committee. For years the chairman of the Executive Committee was Jules Kyburz, but since 1st January, 1992, the office has been filled by Eugen Hunziker. The chairman of the Board of Management of the FMC was Pierre Arnold, but he was replaced on 1st January, 1992, by Jules Kyburz.

STRATEGIC POLICY

Some characteristic policy features are:

- For years one of the Migros' central policy factors has been the environment. In 1985, Migros adopted its own Guidelines for Environmental Protection. It is trying to get rid of packaging and the use of poorly degradable products. For example, it sells cadmium and lead-free batteries, recycled paper handkerchiefs, unbleached coffee filters and tea-bags without strings, paper and staples. Migros is the market leader in the field of recycled paper.

- In 1991 Migros' plastic milk packs were publicised. If they were exposed to too much light the milk turned. Migros has introduced new, opaque plastic milk packages.

- In 1991 Migros was active in the development of Eco-Base, a new software package by means of which fast simple assessments could be made of the effect of a given type of packaging material on the environment. Over 50 firms inside and outside Switzerland are now involved in this.

- At the beginning of 1992 the Board of Management of the FMC ratified the Migros Environmental Policy Plan 1991-1995. Migros wants to reduce power (especially electric power) consumption and waste.

- Migros has a bureau for consumer affairs which has recently been included in the economic policy division. Most questions concern ecological and ethical matters, e.g. environmental protection, packaging, recycling, power saving, animal protection and Third World affairs.

- Switzerland is the country of referenda. Here, Migros often gives advice on voting. For example, in 1988 the Swiss government wanted to introduce a 40-hour working week. Migros asked its employees what they would rather have in the future, a 40-hour working week or an extra week's holiday. According to Migros, 99.35% preferred the extra week of holiday. Migros therefore advised electors to vote "no". In 1989 Migros gained the enmity of the Swiss environmental movement by recommending a "no" vote in a referendum for "agriculture close to nature against factory farms" (result: rejected by a small majority).

- On principle, Migros sells no alcohol or tobacco. It has tried to sell non-alcoholic wine ("Spliff") to the Swiss consumer, but without success.

- In 1987 Migros began a pilot project based on the Cardomat system ("cashless shopping") using a card used by customers to pay for purchases, obtain cash and procure information on their accounts. Agreement was reached in 1989 with the post office, banks, etc. on producing an open system for the entire country. The Eurocheque was integrated into Cardomat. In 1989, too, Migros decided to fit all shops with scanning equipment (investment: 324 million NLG); this process is to be complete by 1995. In the same year a further decision was taken to set up an efficient telecommunications system interconnecting all Migros firms and suppliers.

- Migros' deed of constitution stipulates that 0.5% of the Migros Association's retail trade turnover and 1% of the FMC's bulk consumers' turnover shall be devoted to "good causes" of a cultural, social and socio-economic nature. The sum involved in 1991 was 131 million NLG. A considerable part of the money goes every year to the 50 Club Schools at which about 500,000 adults follow courses annually (with a choice of some 300 subjects). There are also projects for women, people close to retirement, the handicapped, etc. Money is also provided for projects in the Third World; in 1987, for instance, for educational and social projects in Costa Rica, Bolivia, Brazil, Bhutan, Zaïre, Kenya and Tanzania.

INTERNATIONALISATION

In 1932, founder Gottlieb Duttweiler set up a Migros firm in Berlin. About 85 travelling shops stopped at 3,000 fixed points daily. When Hitler came to power in 1933, this first foreign experiment was terminated.

In 1954 Migros started a firm in Turkey. After 20 years, once again on account of political problems, the majority holding was sold to a Turkish enterprise.

In 1981 the co-operative members were consulted on whether Migros should also deploy operations abroad. The answer was "no" (70% with a participation of 21%).

Nevertheless, in 1989 a procedure was set up which may lead to operations abroad. The Board of Management of the FMC agreed to allow the Geneva co-operative to build a large supermarket in Etrembières, France. This was supplemented in 1991 by one in Thoiry, also in the Geneva border area. With an eye to European unification, it has been decided that the co-operatives in all the border areas (Geneva, Basle, St. Gallen, Winterthur/Schaffhausen and Ticino) may engage in similar operations across the border.

Migros is keeping a close eye on developments relating to European harmonisation, eastern Europe and the creation of the European Economic Area and GATT. It is noteworthy that the 1990 annual report also mentions matters like the release of Nelson Mandela.

AMS

In 1989 Migros became an associate member of AMS -- an associate member because its constitution does not permit full membership. Migros is thus the only one not to have a 5% share in AMS. In an Ahold periodical, this associate membership of Migros' was later assessed as "Migros' membershop of AMS fits into the image of the gradual change in Swiss neutrality" (Flitsen, October 1990).

In its 1990 annual report, Migros states that it co-operates solely in the field of purchasing and information exchange within AMS. This is called "a short step towards Europe". Erich Gugelmann, who sat on the AMS advisory committee in 1990 on behalf of Migros, describes Migros' attitude towards the co-operative association more closely: "Our own considerable production of items tends to make many projects far from interesting for us. There are nevertheless other projects and we also attach a great deal of value to mutual exchanges of knowledge" (idem). At the end of 1990, Migros was taking part in 16 AMS projects.

CONCLUSION

Migros is the leader of the Swiss retail food trade. The concern has its own production plants (foodstuffs, cosmetics, detergents, furniture) and a number of service companies (including Hotelplan and Migros Bank). It is a Swiss-oriented firm. Retail trade operations just over the border may be expected to increase slightly. Migros has a totally different operating structure (co-operative) and trade philosophy from the other AMS partners.

Migros' production plants: turnover, result (x 1,000), employees (1991)

	Turnover	Result	Employees
Micarna	822.618	28	1.515
Optigal	46.540	117	
Jowa	811.434	3.676	3.275
Frey	336.526	10.158	758
Midor	228.084	2.696	614
Bischofszell	410.912	3.257	841
Estavayer	500.926	10.824	567
Aproz	69.042	833	134
Fruidor	11.570		17
Mibelle	144.966	5.626	238
MIFA	175.924	2.207	239
Dietiker	175.924		135
Total	**3.590.002**		**8450**

Services and joint ventures

	Total	Result	Employees
ExLibris	133	0,3	416
Hotelplan	1.413	12,0	1.400
Migrol	896	0,4	497
M-Informatics	25	0,1	55
Limmatdruck	121	3,0	284
SRN	333		
Zürich Shipping	1		
Mifroma	242	1,0	197
M-BB	86	0,3	377
MVN	142	0,8	975
Cold Storage	3		8
Monte Generoso	4		15
Probag	1		
Riseria	9		27
LTW	5		55
Total	**3.415**		**4.291**

Migros' banks and insurance company: balance sheet totals and premium income, result and absolute number of employees in 1991.

BT/PI = Balance sheet total/Premium income

	BT/PI	Result	Employees
Migros Bank	9.650	24	819
Migros Bank BRD	662		99
Secura	498		932*
Total			**1.850**

*The number of employees includes agents.

RINASCENTE

GENERAL

The Italian Gruppo Rinascente ("Revival"), established in Milan, was set up in 1917. It is now a subsidiary of the Italian motor manufacturer Fiat. The most important subsidiary is La Rinascente S.p.A. which covers the retail food trade. The group also has a few real estate firms and service companies.

Gruppo Rinascente is the Italian retail trade leader. The rest of the market is rather fragmented. Italy's total retail turnover was about 413 thousand million NLG in 1991. Rinascente's share in this market rose from 1.6% in 1990 to 1.7% in 1991.

The Italian consumer is less accustomed than his or her Dutch counterpart to shop in large modern stores, but some changes are afoot. The turnover of shops with more than 19 staff rose in 1991 by 10.8% over that of the previous year (or 4.4% in real terms).

In 1991 Rinascente made a turnover of 6.9 thousand million NLG and a net profit of 152 million NLG in 740 shops, including 343 franchised businesses. About 48% of the turnover, i.e. some 3.3 thousand million NLG, arises from the sale of foodstuffs and chemist's shop items. About 22% of the turnover, or 1.5 thousand million NLG, was made in supermarkets. The average staff numbers of Rinascente total about 15,000 of which women form 64%.

FIELDS OF OPERATION

Gruppo Rinascente's 740 shops are distributed as set out below:

397 directly owned shops
- 15 supermarkets under the name Citta' Mercato
- 120 supermarkets under the names SMA and Sigros
- 15 cash and carries
- 12 multiple stores under the name La Rinascente
- 192 multiple stores under the name Upim
- 12 stores under the name Cross (household textiles, etc.)
- 17 DIY shops under the name Bricocenters
- 1 consumer electronics shop under the name Trony

The total sales area is 733,000 square metres.

343 franchised businesses
- 29 hypermarkets
- 47 supermarkets
- 1 cash and carry
- 200 stores under the name Upim
- 52 stores under the name Croff
- 14 Bricocenters

After growing large through the La Rinascente stores, the group later diversified into foodstuffs and other operations.

The La Rinascente and Upim stores may probably be compared with Bijenkorf and Hema belonging to the Dutch concern Koninklijke Bijenkorf Beheer. Stores under the name La Rinascente are established in the large Italian towns. They sell high-quality goods with special stress on style and fashion. Upim does pay attention to quality and fashion but mainly at a low price. The Sigros supermarket chain is the leader in Sicily.

SMA supermarkets sell high-quality products in northern Italy with emphasis on a range of fresh goods. At the end of 1989 both chains were integrated into SMAFIN, a joint venture, in which La Rinascente had a 65% and Casino a 35% holding. In 1991 Casino sold its holding to the Compagnie Monasque de Banque.

In the fields of both hypermarkets (Citta' Mercato) and DIY (Bricocenters), La Rinascente is Italy's market leader. The prices in the Citta' Mercato hypermarkets exhibit little difference in the various regions, especially in the ranges of wine and special fresh products.

La Rinascente also has cash and carry shops with foodstuffs for bulk consumers and Croff shops with household textiles and other multiple store items.

In September, 1991, La Rinascente opened the first shop in a new consumer electronic chain, Trony, in Rho, Milan.

ECONOMIC PERFORMANCE

In 1989 Gruppo Rinascente had 13,000 employees and 669 shops (owned and franchised). turnover was 5 thousand million and the net profit 130 million NLG (2.6% of the turnover). In 1989 48% of the turnover was made by the general and textile stores La Rinascente and Upim. The retail food trade accounted for a turnover in that year of 2 thousand million NLG (40% of the total).

In 1990 the turnover and net profit were 6.4 thousand million NLG and 146 million NLG. The greatest turnover, 3.6 thousand million NLG (56%) was made in the sale of foodstuffs.

In 1991 the turnover rose by 10% and the profit (after tax and before the deduction of minority holdings) was 5%, i.e. 6.9 thousand million and 152 million NLG. In 1991 Rinascente recorded growth in all its operations: food, non-food, DIY and electronics. In that year its food turnover rose by only 11.8%. Because the value of the lira fell, however, this turnover seems to have dropped slightly, to nearly 3.3 thousand million NLG. Non-food rose by 9% to almost 3.7 thousand million NLG and is thus the most important category. That year the sale of furniture rose by 7.9% to 745 million NLG. The highest turnover in 1991 was made by the hypermarkets and Upim.

In November, 1991, Rinascente announced that a steady level of profit was expected in 1992-93. From 1994 it expected considerable increases in both the trading result and the net profit. In 1996 the net profit could reach 332 million NLG. La Rinascente S.p.A. is quoted on the most important Italian stock exchanges.

STRATEGIC POLICY

At the end of 1991 and the beginning of 1992 Rinascente announced a considerable reorganisation on which agreement was reached with the trades unions and the government.

The concern is to spend about 3 thousand million NLG on the reorganisation, which is to lead within 5 years (1992-1996) to an increase in turnover of 50-70% and in the recruitment of 5,000 new staff, especially in the southern Italian countryside (Calabria, Apulia and Sicily) which is not yet full of modern shops and where 64% of the additional staff are to be obtained. The extra posts mean a 31% increase in the current staff numbers.

The centre point is the reorganisation of Upim which is alleged to be aiming at too low a market segment. Five Upims are to be closed, 150 modernised and 18 converted into other shop formats in the concern.

The reorganisation also includes the opening of 100 shops, including 20 new hypermarkets, 16 supermarkets and 40 specialist shops.

Rinascente mainly intends to invest in new hypermarkets, of which 3 are planned for 1992, in Santa Gilla (Cagliari), Mugnano (Naples) and Rozzano (Milan).

In March, 1992, Citta' Mercato shopping centre, a new phenomenon on the island, was inaugurated in Santa Gilla, Sardinia. Besides the hypermarket, the centre includes a Briocenter, a Trony and a Croff.

In June, 1992, a similar, enormous shopping centre was commissioned in Mugnano, Naples. This shopping centre, the largest in the area, consists of an SMA supermarket, a Bricocenter and a Trony as well as 40 other shops.

INTERNATIONALISATION

In 1989 Rinascente was one of the first six firms which set up AMS together with ERA partners Ahold, Argyll and Casino. Here, in particular, Rinascente expects a great deal from co-operation with Casino and Mercadona because they resemble Rinascente more closely than the northern partners.

In August, 1990, Rinascente was invoved in more than 19 projects. For example, it settled an AMS agreement with Italian suppliers of fresh grated Parmesan cheese which is now taken by nearly all the AMS partners.

In the middle of 1992 started a test project in which Casino and Argyll exchanged a few own brands. Gruppo Rinascente was also involved in this project. At present, in a Safeway supermarket, 46 of Rinascente's own brands are sold, including fettucine all'uovo (pasta in which six eggs are used per kilo of product) and antipasto (entrée in olive oil). After a selection of the best-selling Rinascente products, these are also to be sold in other Safeway supermarkets. Both Casino's and Rinascente's own brands bear English-language labels. Customers are offered folders in which AMS and the originally national character of the Casino and Rinascente items are explained.

CONCLUSION

Rinascente is the most important retail chain in Italy, and is part of the huge Fiat empire.

In 1991 there was a higher turnover in the concern's non-food than the food sector.

The most tangible form of European co-operation, the joint venture with the French Casino, lasted only a short time.

Over the next five years Rinascente will be paying attention to strengthening its position on the domestic market.