Better Together

New Approach Dick Boer (centre) with members of the Ahold Delhaize management team

SOME SIX MONTHS ON FROM THE COMPLETION OF ITS MERGER, AHOLD DELHAIZE HAS OUTLINED ITS STRATEGY AS A COMBINED ENTITY, WITH AIMS TO GENERATE €500 MILLION IN NET SYNERGIES IN BY FULL-YEAR 2019. **STEPHEN WYNNE-JONES** *MET AHOLD DELHAIZE CHIEF EXECUTIVE DICK BOER TO LEARN HOW THE GROUP IS HOPING TO ACHIEVE ITS AIMS.*

The completion of the Ahold Delhaize merger in July of last year marked the completion of a rumour cycle that had persisted for more than a decade. It was, as the company repeatedly stated, a merger of equals, bringing together the best of both worlds, from the Dutch market leader and Belgian retail giant, on both sides of the Atlantic, where the combined operations of the two have a combined yearly revenue of €60 billion.

Six months on from the announcement – happily coinciding with significant anniversaries for both Ahold (130 years) and Delhaize (150 years) in 2017 – Ahold Delhaize has announced its proposals for the period leading up to full-year 2019 – a blueprint that it is dubbing 'Better Together'.

Ahold Delhaize recently held a capital-markets day in London, at which Stephen Wynne-Jones, *ESM* editor, spoke to the group's chief executive, Diuck Boer about the challenges inherent in such an ambitious game plan.

Defined Strategy

"To us, 'Better Together' has a number of different meanings," Boer explains. "First of all, it obviously applies to the two companies, Ahold and Delhaize, but there's also the question of aligning services, of aligning technologies, and generating best practices so we can serve our customers better."

On paper, there is much about the strategy that makes sense. A key focus for the group has been on ensuring that each regional business maintained its own identity, particularly in its home markets of Holland and Belgium.

"The first thing we did was make it very clear that we strongly believe in the heritage of all our brands," says Boer. "There was a lot of debate in the media over what the Dutch and the Belgians coming together would mean. People were afraid that their local Delhaize supermarket would disappear, or their local Albert Heijn supermar-

Impressive The new Albert Heijn XL store in Purmerend

ket would disappear. We weren't prepared to let that happen. The heritage of every brand is hugely important to us."

At the same time, however, there has been a degree of cross-pollination between the Dutch and Belgian stores. In October of last year, Delhaize added a selection of private-label Albert Heijn products to its shelves in a trial campaign entitled 'Onze Buren Hebben Goede Smaak', or 'Our Neighbours Have Good Taste', while Albert Heijn returned the favour with its 'Tastiest from Belgium' range.

"We're also organising customer tours from Albert Heijn stores to Delhaize stores," says Boer. "Things like this help us to understand what opportunities are there to develop products that meet specific customer demand. Certainly, in the Benelux region, we have the opportunity to use the same suppliers to develop a specific product for the Dutch market, or a specific product for the Belgian market, as our supply chain develops. You don't need to use the same brand name, you just use the same suppliers."

Supply-Chain Savings

With many mergers of this size, the consolidated company looks to gain synergy benefits, to drive supply-chain costs down. With Ahold and Delhaize located so close to each other, I suggest, such synergies could be potentially easy to implement, necessitating some DCs closing and distribution consolidated into other centres. Boer doesn't exactly see it this way.

"I'm personally always a little hesitant on supply-chain integration, particularly when the system already works," he says. "If you cut our supply-chain operations into three pieces, we have the stores, we have the

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AHOLD DELHAIZE: THE STRATEGIC FRAMEWORK

Ahold Delhaize recently unveiled its strategic framework, built around the purpose that 'together, we build great local brands, bringing fresh inspiration every day'. There are three core elements therein:

- **Save for our customers: buy better, operate smarter, waste less.**
- **Invest in our customer proposition: affordable for all, best own-brands, fresher and healthier, most local and personal service.**
- **Fund growth in key channels: supermarkets, e-commerce and smaller formats.**

The group's 'Better Together' strategy builds on this framework and establishes a number of goals that the retailer hopes to achieve in the coming years. The most notable of these is its ambition to deliver €500 million worth of synergies by full-year 2019.

Other targets include a doubling of consumer online sales by 2020 (from 2016 levels), of €2.3 billion, and €1.6 billion worth of free cash flow. In addition, it plans to launch a €1 billion share-buy-back programme in 2017.

WHAT THE ANALYSTS SAID

Bruno Monteyne, Bernstein Research
"Ahold Delhaize's capital-markets day was a clear statement of AD's business and financial strategy. Management articulated Ahold's long experience at successfully competing against the discounters and Walmart while gaining market share. [...]The strategy is simple and sustainable: save, invest in the proposition and fund growth. The focus is on growing local brands while leveraging global scale."

James Anstead, Barclays European Food Retail Equity Research
"Ahold Delhaize will launch a €1 billion buy-back in 2017. The dividend-payout ratio will be 40-50% of pro-forma underlying income from continuing operations – the same policy as Ahold used to have. The buy-back of €1bn represents ~4% of the market cap and would be similarly EPS accretive, given the negligible interest income it would have received if they did not return the cash. The key issue of the capital return is as good as realistically was expected – there may be slight disappointment on the FCF forecast, but it is difficult to draw a definite conclusion."

Rekha Jogia-Soni, Senior Editor, Moody's
"The announced sizeable share buy-back will deteriorate the group's credit quality, as it will reduce cash at a time when the implementation of the merger of the two large European retailers may create operating challenges. However, we do not think that the contemplated share buy-back programme will materially affect Ahold Delhaize's currently strong financial profile, as the group expects to generate €1.6 billion of free cash flow in 2017. [...] Ahold Delhaize is now one of the largest European food retailers and enjoys a track record of high cash-flow generation. Management intends to sustain a payout ratio of 40-50%, in line with Ahold's prior dividend target, but less conservative than that of Delhaize, at 35%. These announcements imply that the group is leaning towards Ahold's prior, shareholder-friendly financial policy."

Vision Boer addresses the group's Capital Markets Day

warehouse execution, and we have the suppliers to deliver to the warehouses.

"To me, where there is a real benefit is maximising how we can work together with our suppliers. It's about asking whether a supplier that is already producing for the Belgian market can also supply efficiently for the Dutch market. It's not about looking at whether an Albert Heijn warehouse in Zwolle, in the Netherlands, is supporting a Delhaize supply chain in Flanders. That doesn't make any sense."

Supplier Relationships

On the question of suppliers, the fact that the merger has created a €60 billion monster hasn't gone unnoticed, with business groups fearful that the combined buying power of Ahold Delhaize will squeeze them out of business.

Local reports in the Dutch and Belgian markets have spoken of suppliers being required to pay an 'integration bonus' to the retailer, and of new purchase considerations implemented retrospectively, back to the start of 2016.

"Supplier groups have done very good lobby work and have been very successful in communicating their concerns, but there is nothing unexpected about what we are discussing with them," says Boer. "If I look at how we have been negotiating with our suppliers, we mainly asked for the opportunity to harmonise deals.

"We want to be treated the same in Belgium and Holland. Why should it cost 10% more to send the same product, produced in the same factory in the Netherlands, to a store in Belgium? We're not squeezing suppliers, we're telling a real story about Europe. We are all operating in a European marketplace."

The group's 'Buying Better' strategy also extends to agreements that it holds with AMS and Coopernic, two of Europe's largest buying groups.

"As Ahold Delhaize, we are a large retailer, but we're not the biggest in Europe, by any means. We are a top-ten European retailer and the third supermarket chain in the US," says Boer. "We need size and scale because many suppliers are still a lot more powerful than we are. Some brands have a very strong position in the market and can designate different prices for different markets. We want to be more equalised with that and have similar pricing right across Europe. That's what we're aiming for."

2.8%

Sales increase at Ahold Delhaize in Q4 at constant exchange rates

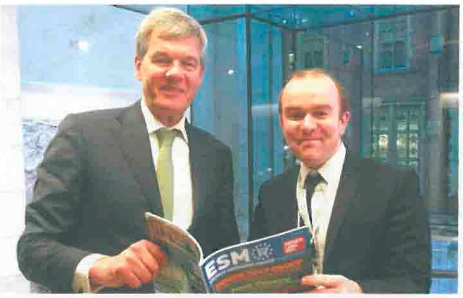
6.6%

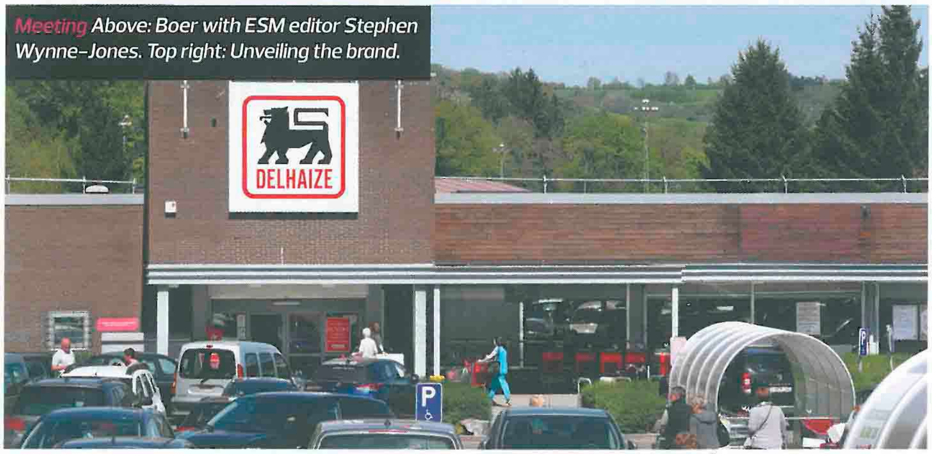
Comparable sales increase in the Netherlands in fourth quarter

On The Right Track

According to Ahold Delhaize's most recent set of results, for the third quarter of the year, the group already appears to be on the right track. Ahold Delhaize posted pro-forma net sales of €15.5 billion in the fourth quarter of its financial year – a 2.8% increase at constant exchange rates. In the Netherlands, comparable sales were up 6.6%, however in Belgium, sales were down 0.9% for the period, 'when compared to a strong fourth quarter in 2015', the group said.

Comparable sales were down 0.2% at





Meeting Above: Boer with ESM editor Stephen Wynne-Jones. Top right: Unveiling the brand.

Ahold USA, while Delhaize America posted a comparable sales growth of 2.2%. As a result of the merger, the group's US businesses now account for two thirds of sales.

Drill down into the figures, however, and it is clear that it is very much business as usual in all the various regional parts of the business. In the Netherlands, for example, the Albert Heijn brand has unveiled the first 100% CO_2-neutral supermarket in the country and rolled out its AH To Go concept into petrol forecourts.

In Belgium, the group's Red Market stores are being rebranded as AD and Proxy Delhaize stores. In the Czech Republic, a consumer campaign offering storage boxes and reading books to children has hit the mark, while in Serbia, a 'healthy lunchtime' initiative has proven successful. As Boer stresses, while these businesses are now part of a much larger retail conglomerate, they have the freedom to develop as they see fit.

"If you have a strong, established position in the marketplace, like we do in the Netherlands and Belgium, we need to find different ways to grow, which is why we're seeing the growth of the AH To Go and Proxy Delhaize formats," says Boer. "In other markets, like Romania, our growth opportunities are different – we opened our 500th store there a few weeks ago – so it's all about allocating investment in the right way and investing in formats that suit particular markets."

This is the basis of Ahold Delhaize's strategic framework, which has been developed, Boer says, to be a "guiding principle" that the various members of the group can apply to their operations, rather than act as a strict, top-down operations structure.

"When we introduced the strategic framework at an internal meeting in Washington, the feedback was positive – it was something that everybody could feel comfortable with," he says.

"Everybody agrees that there are certain concepts, like 'fresher and healthier' and 'local and personal service', that they can buy into, but, at the same time, they want ownership over how that is implemented.

"We need to examine the opportunities we can exploit, whether it be around pricing technologies or assortment standards, and how we can share that across the group."

Dick Boer
Chief Executive, Ahold Delhaize

They feel this is helping them to drive their agenda. Then, on the back of that, we can create best practices," Boer says.

This is particularly true, he notes, in the area of digital and e-commerce, where different markets operate according to different principles. In the Netherlands, for example, Albert Heijn is particularly strong on home delivery, with 86% of Dutch households able to avail of its service, while Belgium's Delhaize uses more of a click-and-collect model.

"With digital, Hanneke [Faber, Ahold Delhaize's chief e-commerce and innovation officer] and her teams have exchanged best practices in e-commerce and digital loyalty. We have developed a global platform of best practices around IT, business services, retail technology, and how to drive cost out of the total chain," says Boer. "We have been able to drive these innovations centrally and localise them according to each market and what their requirements are. We're not going to influence that from the top. That's the responsibility of our managers in each of the markets in which we operate."

Looking Ahead

Next year will mark Ahold Delhaize's first full 12 months of operation as a combined entity, and Boer is confident of several quick wins that will help the retailer on the path to achieving its target of €500 million worth of synergy savings.

"A quick win, for me, is clearly around aligning our agreements with suppliers, working with them on innovations and creating more substance," Boer explains. "That's something that I think will benefit our P&L this year.

"Further down the road, we will look at aligning systems and technology, an area in which you need to be more careful. We need to examine the opportunities we can exploit, whether it be around pricing technologies or assortment standards, and how we can share that across the group."

After all, he adds, in a sector as competitive as retail, the ability to benchmark ideas across multiple banners and markets can only serve to benefit the group as it embarks on its new journey.

"Retailers are always looking to learn from each other," says Boer. "Now, with Ahold Delhaize coming together, that process is made even easier." ■