



‘Better every day’: A conversation with the CEO of Ahold

Dick Boer, who has been at the helm of international retailer Ahold for the past two years, talks about the company’s strategy, new initiatives and technologies, and how he sees the retail industry’s role in society.

**Klaus
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Food retailing is no piece of cake. In recent years, grocery retailers have had to adapt to drastic changes in consumer behaviors and expectations, the encroachment of new competitors that are luring away once-loyal supermarket shoppers, technological advances reshaping the retail landscape, and economic uncertainty that threatens to reduce already-thin margins. One retailer that has been skillfully navigating these shifts is Netherlands-based Ahold, which operates approximately 3,000 stores—mainly supermarkets—across Europe and the United States.

Ahold’s brands include Albert Heijn; Etos, a drugstore chain; Gall & Gall, a liquor-store

chain; bol.com, an online retailer in the Netherlands; and Albert supermarkets in the Czech Republic. In the United States, the company owns the grocery chains Stop & Shop in the Northeast; Giant Food, based in Pennsylvania; Giant Food Stores, serving the Washington, DC, area; and online grocer Peapod. Ahold also has joint ventures with Scandinavian retailer ICA and Portuguese supermarket operator Jerónimo Martins Retail. Under the leadership of Dick Boer, who became CEO in March 2011, Ahold has achieved steady growth in sales and market share.

Before being named CEO, Boer was chief operating officer of Ahold Europe for more than



Keiko Morimoto

four years and a board member of the parent company for almost as long. He joined Ahold in 1998 as CEO of the company's Czech Republic division, became CEO of Albert Heijn in 2000, and took charge of Ahold's Dutch operating companies three years later. Prior to joining Ahold, Boer spent more than 17 years as a retail executive for various Dutch companies.

In January 2013, Boer spoke with McKinsey's Klaus Behrenbeck at Ahold's headquarters in Amsterdam.

McKinsey: *Recently you've gotten some positive reactions from the financial markets. Which elements of your new strategy do you think investors are responding to?*

Dick Boer: The company has gone through a number of phases, and it would be wrong to highlight only our strategy over the past two years. I think the turning point for Ahold actually came in 2006. At the time, the company was a mixed bag—different brands, different structures, even different businesses, with food retail in Europe and food service in the United States. So the board asked us to do a full review of our business.

That review led to a clear statement at the end of 2006 that our focus would be on food retail, and our focus would be in markets where we were—or could become—number one or two. We sold the wholesale division U.S. Foodservice in mid-2007; we also started moving toward continental strategies, with a clear delineation between Ahold USA and Ahold Europe. We cleaned up our portfolio, we focused on food-retail operations in the larger markets, and in some areas we reinvested capital. Essentially, we laid the groundwork for regaining credibility

among our stakeholders, both internal and external. And I think that phase delivered at least a couple of years of sustainable performance to the markets.

But we also needed a strategy to move forward as an organization. When I became CEO, I was very focused on getting the company to the next level. We needed to show the market that we have a strategy for growth. We started working on our next phase—and that led to our current strategy, “reshaping retail.”

I think we had a few things going for us already at that time. We'd decided in 2008 and 2009 to close down our hypermarkets and focus on supermarkets, convenience and smaller-store concepts, and the online channel—all mainly to help fulfill the daily needs of consumers. We felt that was our domain, what we were good at. We also had the benefit of a diverse and highly skilled team, both in the United States and Europe, that we'd built over the last few years.

McKinsey: *Say more about the decision to focus on supermarkets, convenience, and online. How do those three things work together? Or do you think of each one as a separate business?*

Dick Boer: To understand global trends in retail, you have to look at things from the perspective of a customer who can get everything via the Internet. Ten or twenty years ago, you had to go to a hypermarket. I opened my first hypermarket in the Czech Republic in 1998, and it was a big event; we had traffic jams outside the store. We had 50,000 to 60,000 SKUs in one store, from electronics to food. Today, you can get many of these things online, so you don't need to go to the store.



Dick Boer

What we've learned over the past ten years is that supermarkets ought to focus on the experience of fresh foods; that's the name of the game for supermarkets. The freshness of foods in the supermarket gives the customer a reason to go to the store. I also think convenience—having your goods readily available and near the customer—is important. Supermarkets are convenient for weekly shopping trips, but smaller stores are a great opportunity to get closer to the customer. On top of that, I believe you have to have an online offering as an extension of the store. The more variety you have, the more interesting the proposition becomes for the customer. Customers want to be surprised at what they can find online—maybe the authentic Tuscany olive oil isn't on the store shelf, but you can find it online. So that's my view on food retailing today: freshness, convenience, and a large online offering are key.

McKinsey: *All three elements are evident in what you're doing in both Europe and the United States—but you're doing it under several different brands. Do you think you'll continue to manage your portfolio on a brand-by-brand basis?*

Dick Boer: We know some global retailers that have been very successful in pursuing a one-brand strategy, but I think that's more logical in nonfood areas than in food. Our brands have a local heritage, and customers have a long relationship with those brands—so to change those local brands into one global brand is not in our plans.

Our local brands are strong assets. What we've done, though, is give our local brands a common language: our promises, along with our values and our business model and our six strategic pillars. This single page (exhibit) tells you the story of Ahold. We are a global family of local brands, and it's a global family that views things the same way. That's new for us—in the 15 years that I've been working at this company, I think this is the first time we've found a good way of keeping our local positioning while also having one global strategy that our more than 200,000 employees all talk about and work on.

We've defined three promises—to be a better place to shop, a better place to work, and a better neighbor—with the simple overarching message that we should be “better every day.” These promises bring us from a pure local-banner proposition to having a global language that our employees can apply locally in their business.

For each of the three promises, we have a clear understanding of how we're going to measure ourselves, both in hard key performance indicators and in perception. We're not just looking at the real price difference between us and our competitors—say it's 3 percent—but also at the customer's perception of the price difference, which might be 7 percent. Or if we believe we are strong in fresh food, but the customer gives us an average rating of six on a scale of ten, or three on a scale of five, then we would say we're still not good enough.



Exhibit

Ahold's global strategy provides a 'common language' for its employees.



McKinsey: *It appears that one area in which customers are giving you high ratings is your online channels. How do you see Albert.nl, bol.com, and Peapod evolving?*

Dick Boer: I believe we have to give customers multiple ways to do their shopping. My vision is, wherever you are, you should be able to order and buy our products. Either you go to the supermarket for a planned visit, stop at a smaller store for convenience when you're on the run, or do your shopping on the Internet or your iPhone, and then pick up your order or have it delivered. We need to have an integrated approach so that our customers can shop wherever and whenever they want.

We always kept our online business—even in the most difficult time in 2003, when it would have been easy to get rid of the loss-making stuff and just focus on the things that were making money. But we always believed in the online channel, and now our online business has a long history.

Our goal is to reach €1.5 billion in online food sales in 2016. We want bol.com, for example, to continue having double-digit growth, and there are many opportunities to do that. First, we can expand into new categories; bol.com introduced three last year, and this year we'll introduce a few more. Second, we can tap into more regional markets; we expanded into Belgium a couple of

years ago, and it's been going well. Third, we can build our infrastructure of pickup points. We now have 60 bol.com pickup points in Albert Heijn stores, and this will expand rapidly in 2013.

McKinsey: *And you're opening more pickup points, not just for bol.com but also for your other store banners, right?*

Dick Boer: Yes. We concluded that home delivery is great but also has limitations. Although you can say, "I want to have my order delivered between 2 and 4 in the afternoon or between 6 and 8 in the evening," you still have to be at home to receive the delivery. Last year, we identified pickup points as something we needed to test. So far, customer reactions have been very encouraging. Since November, we've opened three Albert Heijn pickup points in the Netherlands.

We're thinking about different options. We've just opened stand-alone pickup points near highway exits. It's a very simple thing: a 20-square-meter box with a small parking lot. You place your order online or on your mobile phone, and then you get a message that it's ready for pickup, along with a code. You punch in the

code when you get to the pickup point, we tell you which parking space to park your car in, and an employee comes to your car with your groceries. You're done in two or three minutes, and that includes the payment process.

The orders are prepared in special warehouses dedicated to online sales, and then they're brought to the pickup point. So this looks to be a promising initiative that fits very well with our strategy, as it helps increase customer loyalty and broadens our offering. By the way, I think pickup is also a great opportunity for the United States, because people there travel so much in their cars.

McKinsey: *Do you regularly export innovations from one part of the world to others?*

Dick Boer: There are some skills and concepts that I think are important to export. For example, we have a high-efficiency, low-cost supermarket model that's been successful for us in the Netherlands, and we've been able to bring it into the Belgian market. Most high-efficiency models are discount-oriented stores, but this is a high-efficiency supermarket with a high service and quality level.

I believe we have to give customers multiple ways to do their shopping. My vision is, wherever you are, you should be able to order or buy our products.



Another important asset that we've exported is our ability to build a brand strategy. We built our own brand strategy here in the Netherlands, and that experience helped our US businesses, which have just been through an intense period of developing their brand strategies.

It goes in the other direction as well. We've made a lot of progress in the United States on personalized offers and customer-reward systems, so we're transferring that knowledge from the United States into Ahold Europe.

McKinsey: *Among the innovations you've introduced, both in Europe and the United States, are mobile applications. Do you see these new technologies generating meaningful sales in the near future?*

Dick Boer: I think the features on mobile devices—whether tablets or smartphones—will soon be the same as the features on your home computer. Take our “Appie” application: it allows you to share recipes and shopping lists with your

friends or your partner or your children, and they can add to the shopping list when they're on their devices; you can order groceries for delivery and specify delivery times. Appie has voice recognition and a bar-code scanner. Mobile devices will only become more important, especially when we get 4G and faster Internet.

And the devices can go even further. One thing we're testing in the United States is mobile payments. Right now, you can pay using an NFC¹ chip, but you have to put the chip in your phone and load it and reload it, so I would say it needs to become more convenient. We also need to better integrate our loyalty cards with smartphones. Today, you can place orders on Appie and it has all your customer data, but if you go to the store you still have to identify yourself with a loyalty card. I think eventually the cards will be replaced with new technology—but it might take longer than everybody thinks, because there are people who never use one or the other, so you need to offer both. In any case, as an industry, we can't stay out of mobile devices and technology.

¹Near-field communication.

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McKinsey: *Let's talk about private label. Retailers everywhere are becoming more sophisticated at it. What's your private-label strategy?*

Dick Boer: Although we continue to grow our private-label business, our stores need product variety—we have to have a good offer of A brands and private brands together. So it's a balancing act. We have a sales target in the United States of 40 percent private label, and we're well on our way to getting to that level. It's still lower than Europe; Europe is more in the 50 percent range. But the market circumstances are different: at least in the Netherlands, but also I think in the United Kingdom and some other markets, you see a higher share of private label because we have limited space. We have to manage and balance every square centimeter in our stores. Space isn't a problem in most US stores, so they can have greater variety, and American customers want to have larger selections.

McKinsey: *One final question: something you've emphasized at your company—and it's a big topic for many other retailers as well—is corporate social responsibility, or CSR. To what extent is CSR part of the value proposition of your brands?*

Dick Boer: First, it's important to note that CSR—or “responsible retailing,” as we call it—is an integral part of our strategy, as reflected in our six pillars. Of course we have our organic products—Pure and Honest here in Europe and Nature's Promise in the United States, which is huge. But I think CSR is more than just organic products.

We think about CSR in four areas. First, we need to be transparent in our product sourcing. At the end of the day, our sourcing should be good for society. Second, we want to help our customers and our employees live healthier lives. We want 25 percent of our products in the stores to be healthy products, marked with one of our “healthy living”

logos. Third, we want to decrease our climate impact, for instance, CO₂ emissions. We're doing things like changing our refrigerators and coolers to save energy. Fourth—and this may be the most important—we want our supermarkets to really be part of the community. That can be through supporting food banks, or it can be through helping the communities around our stores. For instance, most of the time, retailers with stores in depressed or low-income neighborhoods start thinking about moving out of those communities, but we believe we should rebuild those stores and help them become the social center or the heart of those communities that are in a bad situation. These four themes are part of our promise to be a better neighbor. It's an important promise, and I believe you can never do enough.

One challenge is that there are conflicting demands, and they all need to be considered. For example, on the one hand, on a global scale we

will have nine billion people to feed in 2050. On the other hand, there are concerns about animal welfare, production of raw materials, and so on. We can't focus on just one or the other; we somehow need to balance them all.

We as an industry, and at Ahold, have to prove that we can be better every day. I strongly believe that, to be able to meet the needs of nine billion people 40 years from now, we must take even more fundamental actions together to be sure that we fulfill our responsibilities, whether it has to do with water conservation, or sustainable production, or obesity. There is a role for us as an industry to help people use the things we sell in the best way—for their health, for the community, and for future generations. [o](#)