



Interview

Adam Manikowski Managing Director, Żabka

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Question: What do you think will be the most important trends shaping the grocery retail industry in the next one to three years?

Adam Manikowski: We see time becoming the new currency. Customers are stretched for time, so they appreciate fast shopping and want quicker delivery, within 15 minutes. This shift to instant delivery in e-commerce is the next level of convenience that customers want and what we need to respond to quickly. That is especially important to us as a convenience chain. But today, even discount retailers, through partnerships, offer instant delivery in cities. A few years ago, this was impossible to even think about. Today, any retailer in Poland can react to this trend. We also see technology and data becoming much more important for retailers.

Question: How do you address these trends at Żabka?

Adam Manikowski: We are investing significantly in innovation, especially around digital. Today, more than 15 percent of Żabka's employees work on designing and implementing innovations, from new business models to cloud computing and machine learning. We organized these employees in a separate unit called Żabka Future, including specialized career paths and benefits to attract proper talent. This was a big step up for us compared with when we considered digital as part of the traditional business model. The Żabka Future team thinks only about the future, creating new products that we then integrate into our core business to further organically grow our business. These competencies are extremely useful, especially as we now see many trends accelerate.

For example, we established our own offer for quick delivery within 15 minutes. To implement this project quickly, we created a start-up with a new agile operating model, heavily supported by digital technology and analytics. We built this offer from scratch. By controlling the value chain through to the last mile and by investing in dark stores,¹ we can deliver a consistent customer value proposition, which is a big advantage over other players that partner up with delivery services.

Since customers want a seamless shopping experience, we also opened 30 unmanned stores that are open 24/7, making us the largest unmanned-store operator in Europe. Right now, we see this as a growing trend that we want to accelerate as the leader in this space. We spent a significant amount of time on finding the best replicable technology that could also deliver a positive EBIT contribution. The problem with unmanned stores has historically been that the technology was too expensive to scale. With a partner, we developed a cost-effective solution that works with our business model. The upside of this technology is that it's very accurate, and we now have a rollout plan. Already this year we are planning to double, or perhaps even triple, the number of autonomous stores.

Question: Some grocery CEOs might say that instant delivery within 15 minutes will never make any money. What would you say to them?

Adam Manikowski: The Polish consumer is very tech savvy, and as a leader in the convenience sector, we cannot ignore the instant-delivery trend. It fulfills our mission to address the needs of customers, such as the ability to buy and consume almost immediately. It's important to see this trend holistically from the perspective of the overall lifetime value of customers. We know that offering instant delivery as part of our ecosystem leads to more loyal customers and overall bigger baskets.

The last mile is creating an incremental value from total value of the customer, as well as profits for Żabka and its franchisees. Our franchisees even see bigger baskets offline with these customers. We have measured this and can see it reflected in our numbers. You cannot look at each channel separately; you have to look at customer behaviors across every channel.

Question: How did analytics help you change Żabka's operational and commercial models?

Adam Manikowski: First, analytics has revamped how our expansion team operates, helping us open 1,100 new stores in 2021, an improvement from 1,000 new stores in 2020. We started a digital transformation in 2016, focusing on artificial intelligence and special algorithms to help us grow faster. We built an AI engine that analyzes nearly nine million postal addresses in Poland. It allowed us to go after the right locations in a very targeted way and open an increasing number of stores per year, even while we already covered a large part of the market in Poland.

¹ A dark store is a retail store that is not open to the public, used as a warehouse for quick-commerce deliveries.

Second, we use AI to manage our assortment segmentation, allowing us to deliver profitably to both a small city with 5,000 inhabitants and downtown Warsaw. AI helps us manage different assortment and pricing segments to those customers, depending on the catchment area. For every address in the country, we know what the optimal assortment for a new store would look like and what sales it would generate. We currently have 14 segments of assortment in Żabka, so we apply approximately 250,000 variants of planograms to determine the best assortment and merchandising for each store. You can't manage such complexity without technology. AI allows us and our franchisees to serve our customers better and grow profitably.

Third, we operate the biggest loyalty program in Poland, with more than eight million subscribers to our loyalty app, and we have an ambitious plan to grow this program to ten million users this year. We can do customer segmentations and offer hyperpersonalization in real time to target customers with specific offers. Unlike with traditional marketing tools, with the app's hyperpersonalization we can produce a higher ROI with targeted campaigns because we know exactly whom to target. The key to its success is making sure the app is user friendly, provides a positive experience, and gives customers access to real benefits. We are investing a lot into this. Your commitment can't be halfhearted—you need to go all in with the proper investment in these tools.

Question: Besides the nano stores, all of your 8,000 stores are franchisees. How has technology helped Żabka to successfully recruit and manage new franchisees and stores?

Adam Manikowski: Żabka needs to recruit thousands of franchisees every year. We use tools like Optiplan and the Cyberstore app to help franchisees to understand and plan all the store activities and get real-time analytics on the business overall. This allows us to target franchisees that have little or no prior retail experience; these tools make it easy for franchisees to manage their stores in an efficient way.

The Optiplan tool informs managers of how many people should work in a store and what they should be doing. It can also support daily functions such as looking for expiring products and advising on the best time for a baker to bake. Optiplan also supports automated replenishment and the ordering process across all 8,000 stores. What was formerly taking up to six hours per week now takes minutes.

The Cyberstore app has all the data concerning a store from the cloud in real time. This means franchisees can also see real-time profitability—sales, margin, and profits—in the app. Some of our competitors still need to wait for the next day to see sales; we see it in real time and can act on it.

Question: Can you talk about what it took to make technology at Żabka a success story?

Adam Manikowski: Żabka is an ambitious company with a strong entrepreneurial culture. When we started this journey, we did not have much; we were able to leapfrog other retailers

by starting from scratch. We didn't have legacy systems that could slow us down. We could immediately implement the best solutions that existed at any given time.

When you invest in technology, you need to make sure that the technology ultimately supports your people. Our expansion and sales teams, who deal with those solutions the most, saw that the tech brings efficiency and allows them to focus on things that matter: growth, value for customers, and value for franchisees. Imagine all the processes necessary to come together to open one store—and then how much you need to automate to do this 1,100 times.

But it's not just about the technological solutions. We had full alignment from the start with key stakeholders, top-notch partnerships, and the right organizational structure to allow further autonomy and investment with the creation of Żabka Future. This end-to-end approach has been extremely important to our success. With the full commitment of the board, we were able to properly allocate the resources to grow these projects.

Question: What's next on your radar for big opportunities in retail?

Adam Manikowski: There are three areas we are already exploring: automation, improving customer data to be even more precise in what we offer and how we offer it to customers, and e-commerce focused on real-time convenience.

Technology is helping us to stay fully aligned and can also provide new growth opportunities. For example, using our supply chain data, we know when and where to invest in new distribution centers years in advance. We're planning to open one of the most modern automated distribution centers in Europe near Warsaw. We started building it a year and a half ago, and it will be opened this year. This distribution center is intended to service approximately 3,500 stores, with the potential to service more than 5,000—subject to possible future expansion. While we didn't have automation knowledge from the onset, our company culture really helped here: our digital expertise helped in mapping out the process, and our start-up approach helped us to create focused, agile teams. Without this prior investment in technology and know-how, we wouldn't have been able to accomplish this so quickly.

As for future plans, we need to grow the network and find new ways to be closer to customers. For example, analyzing the data from our apps and our supply chain can potentially help us identify the gaps or white spaces of opportunity like profitable concepts where people have low price sensitivity. We also expect instant delivery to expand beyond Warsaw, where we will also need to work on profitability. Overall, we want to be top of mind for our customers when they think about quick delivery. Last, automation and unmanned stores will need to be an integral part of our business model.

As we look to the future and continue to grow Żabka, the challenge is to avoid becoming a bureaucratic company that reacts very slowly. They say retail is detail, but speed is everything, so we cannot lose our speed.