

Interview

Marina Caprotti Executive Chairman, Esselunga (Italy)

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and amended on March 22, 2022*



Question: How would you describe the current market conditions for European grocery retail?

Marina Caprotti: There is a lot of tension around prices, especially because of the volatile cost of many raw materials. We're obviously concerned about inflation and a possible slowdown in consumption in the coming year. The terrible Ukrainian crisis is worsening an already complex and critical situation with the risk of structurally prolonging inflation and the slowdown of consumption. The energy crisis is also proving to be extremely challenging in Italy, and this risks plummeting sustainability in the overall priority agenda.

Also, new stores are constantly opening, and the industry remains highly competitive. At the same time, COVID hugely accelerated the growth of e-commerce, and we expect this to continue in 2022 because shoppers value the convenience of ordering grocery online, or through an app, and having it delivered to their homes. We also notice that health and sustainability are increasingly important to consumers.

Question: How is Esselunga responding to these challenges and opportunities?

Marina Caprotti: We recently launched a dedicated program to keep prices competitive and stay close to our customers in these difficult times. We aspire to maintain our leadership across all channels—online, click-and-collect, and in-store. We are also experimenting with smaller store formats. Generally, it's very important for us to strengthen our relationship with our

customers, whether through pricing and promotions or by providing the products and services they want.

Our loyalty program, Fidelity, is the anchor of this commitment to customer-centricity. Fidelity covers 95 percent of our customer base. We use the data generated through the program to analyze shopping patterns and refine our propositions constantly. Knowing what customers value is a huge asset for us. For example, we see that healthy ingredients, food safety, and sustainable packaging are continuously becoming more important as purchasing factors. A lifestyle of health and sustainability used to be a niche. Now it's a mainstream phenomenon.

Question: What does your sustainability agenda look like?

Marina Caprotti: In 2018, we approved a five-year sustainability plan for 2019 to 2025. It rests on five pillars: our customers, our people, the environment, our suppliers, and our community. Based on the input of our stakeholders, we identified 27 very realistic but challenging goals that are linked to the UN Sustainable Development Goals, such as responsible production and consumption. Reducing greenhouse-gas emissions is a priority for us. Animal welfare is another important aspect. We continuously monitor our sustainability targets and publish our progress in our annual report. We have actually met many of our targets ahead of schedule, while some others have been delayed by the pandemic.

Question: What are some of the specific initiatives you are pursuing to drive sustainability?

Marina Caprotti: It starts with our stores. For example, we have recycling bins for different types of materials, which aren't as common in Italy as they are in Northern Europe. We also minimize food waste by donating fresh produce and fresh bread to local communities through our partnership with Banco Alimentare, the pioneer of a movement committed to reducing food waste and hunger. In 2021 alone, we donated three million meals. We also support local schools, with donations of €100 million in the past seven years through our Amici di Scuola program. But the store is only the starting point. Three years ago, we launched our Super Foodies campaign to educate children and their parents on food nutrition and healthy eating. We also partnered with Disney to create CheJoy, a private-label brand that promotes healthy food for kids.

We have always been committed to supporting humanitarian aid wherever an emergency occurs. Last week we sent three trucks to Poland on the Ukrainian border to help refugees, and we have started a fundraising campaign with the Red Cross in collaboration with our customers, who are responding with great generosity.

We have believed in the value of the private label since the 1970s. Today, through private labels, we can control all stages of the production processes, and we can influence all the elements of sustainability, such as packaging materials, origins of ingredients, and nutritional elements. We use this influence to promote energy efficiency, organic farming, animal welfare, social responsibility, and other sustainable practices all along the value chain.

We also work closely with other stakeholders, including the suppliers of branded products and regulators. For example, in Italy, every town has a different waste-management regulation. We would like to do a lot more to reduce and recycle waste, but we are held back by local authorities, even when it comes to something as simple as recycling coffee cups. We are trying to push this through the retail association, but changing the system is a long and difficult process, and we need the support of policy makers.

Question: How do customers respond to your commitment to sustainability?

Marina Caprotti: They love it. Reducing plastic is especially important to them. In response, we are changing the packaging of our products from plastic to organic materials wherever possible, and we give shoppers clear instructions on how each piece of packaging should be disposed of. Our customers also care a lot about local sourcing. It's important for Italians to buy Italian products. This is why we recently introduced a QR code on many of our private-label products so customers can find out where our ingredients are sourced and how they are farmed. In addition, we're reviewing the recipes for all our processed products to promote healthy eating and food safety.

Not every shopper cares about all the details, but we believe that our transparency and the consistency of our behavior over the years have guaranteed us the confidence and trust of our customers. That said, only a small fraction of them are willing to pay more for health and sustainability. Because of the high inflation rate, customers are very focused on price right now.

Question: Is that kind of mindset a new development at Esselunga?

Marina Caprotti: On the contrary. As a family-owned company, we have long been committed to sustainability and social responsibility. We have been offering organic products for 20 years, and we have always been closely involved with local communities. It's in our DNA, and it has to be. Our philosophy is to do things first and then talk about them, not the other way around. There is so much noise out there, and there is a high risk of coming across as superficial. We see our current sustainability strategy not as an add-on but as an expression of something that has long been deeply rooted in our corporate culture.

Question: How do you make sure everybody is on board?

Marina Caprotti: We have 25,000 employees. Our people are one of our most important assets, and we involve them in everything we do. There was some resistance in the beginning—maybe a bit of a generational divide. To drive sustainability throughout the organization, we created a group of employee ambassadors, a diverse group that represents every department and includes people of all generations. The key was letting everybody know that sustainability is part of what we do, not just a side project. We also put in place a lot of training for our employees and amplified our commitment to sustainability through our internal communication platforms. Now, our people understand the importance of sustainability, and they believe in it. We also keep bureaucracy around target setting and tracking to a minimum, and it pays. Today our people are proactively developing their own sustainability initiatives, even if it's not in their job profiles or incentives. For me, this is the most incredible change to watch.

Question: How do you think the grocery sector will develop in terms of sustainability?

Marina Caprotti: You cannot do business without thinking about sustainability. Ten years from now, sustainability will be integrated with every aspect of our industry. However, we face a challenge because consumers are not willing to absorb the entire cost of transitioning to a fully sustainable system, and grocers can't do it alone. We definitely need the support of other industry players, such as food producers, and of government institutions. Together, we will need to solve the problem of how to balance sustainability with affordability. This must be our priority.