



Interview

Frans Muller President and CEO, Ahold Delhaize

Question: What are the most interesting trends you've observed within the grocery retail industry over the past 12 months?

Frans Muller: We have seen accelerated growth in omnichannel across food and nonfood items, primarily because of the focus on safety and other retail businesses' closure. Many people who didn't shop online before are now making use of our local brands' online propositions as well, an indication of how the pandemic has provided extra fuel for omnichannel. For us, it is much more about omnichannel than online; it is about how you bring everything together, for example, under the umbrella of loyalty systems.

Over the past year, we grew online 57 percent in Europe and 105 percent in the US. To meet this demand, we added a lot of capacity. We initially maxed out on growth. So we focused on getting more capacity but also becoming more profitable.

Ahold Delhaize's challenge is that food online is dilutive to our business, especially to our overall margins in food. The question—and one many grocers are facing—is: how do we make food e-commerce more profitable?

Beyond that question, I observed three major shifts. First, COVID-19 spurred people to pay much more attention and higher priority to personal health, including healthy products, lifestyle, nutrition labelling, and ingredients, such as sodium, but also calories since obesity is a risk factor in COVID-19.

Second, sustainability is also a top trend for consumers. Across the board, we see a higher level of consciousness, urgency, and hunger for information and transparency—from sourcing info on products, farm to fork, shorter and more sustainable supply chains, and other factors. On a personal level, over the past year, I've spent much more time with my family during the lockdown to talk about how we can create a more sustainable environment and what we can do for our next generation.

Last, the pandemic has caused a shift toward in-home consumption that I believe will partially stick. As consumers swapped restaurants for in-home consumption, they rediscovered how to prepare meals and discovered meal solutions and convenience food. I believe in-home consumption will be more sticky than we thought because people realized that a good-quality, convenient meal at home is enjoyable and more economical than dining out—especially given the likely economic downturn to come.

Question: As you look to the coming year, how will the pandemic continue to influence behaviour both of consumers and within your organization?

Frans Muller: The health and well-being of our consumers and our own people will keep us very busy. The pandemic has worn people out both physically and mentally. In particular, we should not underestimate mental fatigue. I sponsored a research project on what the pandemic means to people, and I am afraid this past year will have a bigger impact than we might expect. The fear and uncertainty, the loss of family members and friends, and the emphasis on hygiene and social distancing will likely continue to shape our behaviours for years. The crisis will also significantly shape how consumers make decisions.

Within Ahold Delhaize, we're focused on the safety and mental well-being of our people. We have more than 400,000 employees in stores and distribution centers, as well as in offices. Each week, 54 million consumers visit our stores and online. That's a lot of contact that we cannot completely control. For example, to help the situation, we started to pay for sick leaves and guarantees to our employees in the US that are paid on hourly levels. We have also instituted short pulse-check surveys for employees every four weeks. These kinds of measures help us to understand how our associates are physically and mentally doing and how we can support them as a company. This is all not so visible to the public but therefore even more important.

We have also focused on the community aspect of our business. Our stores are deeply ingrained in communities, and even small gestures can reinforce our commitment to our associates and consumers and the surrounding community. Our purpose is to nourish communities to make them thrive. A purpose is a key element for an organization, so we do communicate it frequently. For example, we partner with food banks. The greater our efforts, the prouder our employees feel.

Question: How have you adjusted your assortment and pricing to address new consumer preferences?

Frans Muller: We have given a lot of thought on how we make healthy food more accessible in our stores. We also offer a progression of goods for consumers—from fresh to convenience to meal solutions. For example, when consumers go into our stores, in the first meters, they see cauliflower. Ten meters later, they can see the cut cauliflower. Another ten meters, and they find the precooked meal with cauliflower.

We also want to ensure a variety—that you have something different on the table every day of the week. Our ready-to-heat soups have been flying off the shelves during the pandemic.

We have introduced an existing nutrition navigation system in Belgium, called Nutriscore, to help consumers make healthier choices, which provides guidance about the nutritional value of products. In the US, we have taken the lead to initiate and introduce our own nutrition-navigation system, called Guiding Stars. In line with these developments, we have created SuperPlus in Belgium, which provides consumers with automatic savings when purchasing healthy foods. The more healthy you buy, the bigger discount you get. It is super personalized and purely digital.

Question: How do you see the evolution of downtrading and of the opening price tiers?

Frans Muller: We still have to see how the economic situation will influence possible trends toward more value. Interestingly in Germany, the discounters were losing market share last year to the benefit of the supermarkets.

However, over the longer-term horizon, discount might grow, putting more margin pressure on the industry. So you have to be creative with how you work on cost of goods sold (COGS), omnichannel, customer value proposition, private label and margin mix of your baskets.

We want to be there for as many people as possible. No matter if they have a small wallet or a bigger wallet, if they are good cooks or not, we want to have a good offer for them. So you will always find a strong opening price point offering with our private labels and the national brands and our higher-price-tier private labels. For example, our brand in Belgium, Delhaize, has a higher quality perception but has a broad range of opening price point offerings.

Over the last years, we have seen an increase in items in our price entry tier. Also, the quality is going up, and the specs are getting better, so you compete at a higher quality level. We now have around 1,500 products at the price of discount at similar quality. We focus on a two-tier approach because this is the most comprehensive for a consumer. With the higher quality already at entry level, you cannot differentiate anymore between the opening price point and too many price tiers.

Question: How do you see the position of national brands evolving?

Frans Muller: We had a few discussions with national brands. They are not completely clear in their positioning toward the supermarkets. If you look at a macro level, discounters are growing, private label is growing, and online is growing, which is very difficult for them to scale. The national brands react by entering discounters or also joining online platforms. But in the end, with the dominance of these platforms, you will not build product innovation. This is, for me, a dead-end street.

I think strategically, for traditional brands, supermarkets are the best friends. Also, for supermarkets, national brands are essential. We love our national brands.

Question: Do you see the next price war coming?

Frans Muller: We are all more or less in the same boat. When the pandemic is over, we may look back on 2020 as a growth year, but 2021 could bring a decrease. So retailers will have to look at costs and productivity. It isn't easy because we see wage increases across the world. Also, COGS is a topic, especially in online business. Today, a supplier charges us the same price if we sell something online or in our stores but with a very different cost for us. So we need to negotiate better prices for online—for example, by offering consumer data and to share through a different media monetization platform.