

GOING DUTCH

Albert Heijn is by far the largest retailer in the notoriously cost-conscious Dutch market. Although threatened by Aldi and Lidl in a price war that lasted over three years, the company has repositioned itself in the middle segment of the market and boosted sales as well as margins, writes Ronald de Groot.

Several years ago Albert Heijn was struggling with its image. Financial problems caused by its parent company Ahold's problematic acquisitions in the American markets led former CEO Cees van der Hoeven to override the objections of the Albert Heijn management by raising prices and margins. This effort to improve the balance sheet failed: sales went down and customers looked elsewhere. As discounters like Aldi and Lidl took stronger positions in the grocery and wine markets, Albert Heijn's market share fell, as did profits – by 23% in 2003.

Forced to react, Albert Heijn got into a price war that now, after three years, has brought good results, including the abandonment of the market by its largest competitor, Laurus. Formerly owned by Eric Albada Jelgersma, Laurus's major shareholder today is the French retailer Casino which has sold its EDAH and Konmar outlets and now only retains the Super De Boer chain. Industry observers wonder why the group did not merge the different chains earlier into a single Dutch Casino and whether this last brand can survive by itself.

In the meantime, the market share of Albert Heijn has grown and profits have soared. With the demise of Laurus, its strongest competitor now is Superunie, a group of independent, regional retailers that have formed a cooperative purchasing group to give themselves greater buying power. Its main members are Deen, Jan Linders, Nettorama, Sligro,

Spar and Jumbo, which together corner an estimated 25% of the market. The Sperwer Group, Spar and Plus with 590 outlets, is currently the third biggest player in the market – and has now bought 110 EDAH outlets from Laurus that it will integrate into its existing shops. Sperwer is reportedly also currently looking at Super De Boer.

If the redistribution of outlets has led to an end – or an easing – of the price war, Albert Heijn is still a tough negotiator, pushing prices down in what is known locally as a „Dutch“ way. Like other retailers, Albert Heijn is well aware of global overproduction and see lower prices as a good opportunity to improve margins. As the purchasing is done by the same team in the Ahold head office in Zaandam that also does the buying for Gall & Gall, another large subsidiary of the group with 500 wine shops, but a separate marketing arm, their leverage can not be underestimated.

Innovation in wine

Without always revealing precise figures, Albert Heijn's senior category manager for wine, Gert Zwitser, explains how the Netherlands most powerful retailer, with a total market share across all product types of nearly 30%, focuses on wine. 'In our listings we follow the company motto: „Making everyday shopping affordable and making exceptional shopping attainable.“ Roughly translated, this

1 Albert Heijn in figures	
Number of outlets:	700, plus 20 XL
Total turnover:	€ 6.5 billion
Wine turnover in value:	€ 240 million
Wine's share of total:	3.5%
Wine turnover in volume:	70 to 75 million
Sherry and port:	around 15 million bottles
Average bottle price:	€ 3,20
Share of total Dutch wine market:	35%
Red: wine share of sales	54%
White: wine share of sales	33%
Rosé: wine share of sales	13%

Albert Heijn is part of Ahold, a global player in retail. Other Ahold companies in the Netherlands: Gall & Gall (wine & liquor shops), Etos (drugstores) and major shareholder of Schuitema, owner of C1000 (retailer, but acting as competitor of Albert Heijn in the market, market share estimated at 15%).

2 Dutch market in figures	
Total sales in volume:	261 million bottles in 2006 254 million bottles in 2005
Total sales in value:	€ 684 million in 2006 € 667 million in 2005
Red in volume:	129 million bottles in 2006 132 million bottles in 2005
Red in value:	€ 348 million in 2006 € 357 million in 2005
White in volume:	98 million bottles in 2006 95 million bottles in 2005
White in value:	€ 242 million in 2006 € 234 million in 2005
Rosé in volume:	34 million bottles in 2006 27 million bottles in 2005
Rosé in value:	€ 94 million in 2006 € 76 million in 2005

Although total wine consumption has grown, red wines have lost ground for the first time in recent history. White wine consumption increased slightly, but it is rosé that has skyrocketed, from 9 million bottles in 2003 to 34 million bottles in 2006.

Moving annual totals to October 2006 compared to October 2005)

SOURCE: AC NIELSEN ALL RETAIL, ALDI, LIDL INCLUSIVE

SOURCE: WINE BUSINESS INTERNATIONAL

means that at entry level, wine prices are kept at a low level to compete with Dutch discounters in order to retain customers. At higher levels, it tries to „stretch“ prices. „While trading up, we want to give the consumers that are looking for something special a good wine at a very fair price. And we have, at this level, traded people up further than any of our competitors.” Gert Zwitter refuses to specify the average price of Heijn’s wines, but it is obvious from a glance around the shops that wine is priced well above the average Dutch retail levels – a mere €2.62 per bottle – and certainly higher than all of its competitors. Our estimate of the Heijn average being €3.20 brought no objection from Zwitter.

With total sales estimated at over 70 million bottles a year, Albert Heijn has a market share for wines that is higher than its general market share and which is thought to approach 35%. This position is partly explained by under-performing competitors. As Zwitter says, „Although pressure is strong, we try to remain competitive by being innovative in our listings. So, wines from the New World have a stronger position in our range than European wines.”

„Apart from our 700 normal outlets, we have now 20 XL superstores with enormous turnover. In these shops we have special wine listings ranging in price from €7.50-30 per bottle – unusually high figures in the Dutch retail sector. This means that our customers no longer have to go to a wine specialist for their better purchases. But we don’t want to be as broad in our portfolio as the Belgian Delhaize chain, where, for example, you find over 70 champagnes. We believe that our portfolio should remain understandable for our customers. At present the Dutch consumer is unable to handle too many wines. So we use our promotions, not only to sell more bottles, but also to stimulate our customers to try something new.“ Walking through its shops today, it is clear that Albert Heijn is more focused on

COMMENT

»» We work closely with our partners to find creative ways to stay ahead of the market. ««

Gert Zwitter

Senior category manager for wine Gert Zwitter has helped Albert Heijn increase its market share for wine to 35%, well above their market share for groceries.



wine brands than its competitors, with the accent on producer brands rather than buyer’s own brands. Zwitter continues, „For us, brands dedicated to Albert Heijn are very important. We look for exclusivity in our relationships, as for example with Chilean wines from Undurraga or Argentinian wines from Norton. Brands that are committed to us receive our support and we work together to grow the market.” As Albert Heijn is such a large buyer, no one else can outbid it. In that way the firm has been able to distance itself from the heat of the ravenous price competition that is seen in widely distributed international brands discounted by competitors seeking to undercut Albert Heijn. Heijn has delisted most of these products – and improved its overall margins. For this reason, contacts with suppliers remain crucial. According to Zwitter, „we travel around the globe, not only to find new wines in keeping with our vision, but also to stay in touch with our suppliers, talking about the changes in consumer habits, and working together to build creative ways to stay ahead in the market.“ ■

QUOTE UNQUOTE

»» Given the aggressive position of their shareholders, Albert Heijn needs higher margins. ««

Ronald de Groot

Albert Heijn’s policy of working with preferred brands makes these companies vulnerable. On the other hand, Albert Heijn is vulnerable in the upper end of the market. Their competitors should try to penetrate that more lucrative part of the market. Given the aggressive position of their stockholders, Albert Heijn needs higher margins. Family owned companies have more room for innovation. A good example is Jumbo, member of Superunie.



BENELUX

In order to compare the major chains in the Benelux, it would be necessary to look at Cactus in Luxemburg as well, but in this feature we look only at the two larger of the tiny neighbouring countries, roughly similar in size and population. Belgium has 10 million inhabitants, the Netherlands 15. The similarities, though, end there.

In their cooking, drinking and even lifestyle there are considerable differences between the cheerful Belgian and the more pragmatic, efficient Dutch. Not surprisingly, there is also little in common between the two retailers that embody their respective countries, the Dutch Albert Heijn and the Belgian Delhaize. Although insistent rumours have it that the – in truth – not-so-cheerful Belgian could swallow the not-so-efficient Dutch, we have focussed only on the wine strategies of these two big fish splashing in small ponds. ■