



SUCCESSFULLY ENTERING THE FRENCH RETAIL MARKET
AN UNDERSTANDING OF PRICE MARGINS AND SUPPLY CHAIN MECHANICS

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1. Preface

Each market has its own specifications and characteristics.

In many aspects, France is a difficult market to enter. France is one of the largest countries in the European Union and handling distribution can be extremely complex even for French suppliers. There are also some specifications to the French retail market that can be found in no other market.

The French market can seem quite daunting to future exporters, but provided the exporter's products and approach are adapted to the market it can also be very rewarding. Walkers Shortbread have established a very successful partnership via the importer/distributor, Kambly, Innocent's smoothies and Gü's chilled desserts have gone mainstream and both companies now have their own offices in France...

Fortunately, there is also a certain harmonization taking place on demands and requirements, both within the European Union and amongst international retailers. Still, differences between markets exist and can complicate trading internationally.

This report enables the (soon to be) exporters to familiarize themselves with all the specific demands and requirements that apply to trading with French retailers.

In this report, GSG France aims to provide guidance to Irish manufacturers in order to assist them in building their presence in France and optimising the level of sustainable business.

2. Methodology

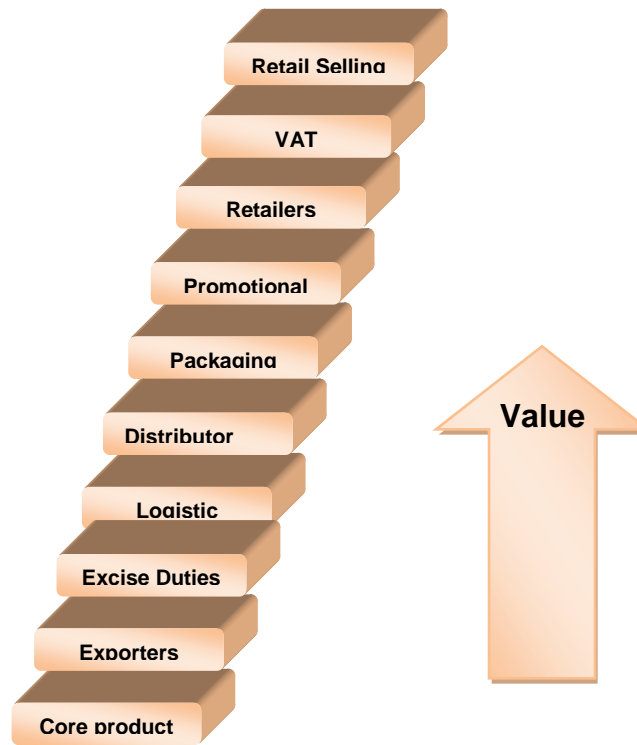
GSG France has over 20 years of experience assisting foreign companies in developing their business in France. Understanding the various distribution systems available to future exporters is an integral part of this. GSG France has drawn on this experience to complete this report.

For the purpose of this report, the *value chain* is followed from the manufacturer to the end-user. All requirements of each layer are described, enabling the exporter to examine the requirements to successfully enter the French market.

Input is provided by the retailers themselves, through manuals, documents or other publications they provide to (potential) suppliers.

External resources are used in the case of specific information concerning tax regulations, packaging requirements and legal aspects. In the case of very complex detail, a referral is made to the source of the information, enabling the reader to gain further knowledge.

The value build-up:



For confidentiality reasons, all case studies will remain anonymous and the companies presented will simply be referred to as Company 1 (ambient products), and Company 2 (chilled products).

3. Value chain mechanics

In this chapter, all *value chain layers* are explained and *cost indications* are stated. Some of the mechanics are specific to the French market, others will be recognized as being familiar as they will apply to the European Union in general or are initiated by international retail trade organizations.

3.1 Consumer research

When preparing to enter the French retail market with a proposition, investments in *qualitative* and *quantitative consumer research* are helpful in ensuring that product concepts are in line with consumer needs and requirements. Consumer preferences differ per geographic market; to be able to understand this and to determine the level of difference from domestic market preferences, these, sometimes slight *differences*, will have to be recognized and dealt with. Research used to be an activity carried out by branded suppliers, nowadays also own label propositions are researched, enabling a successful pitch for business.

When carried out in a proper manner, a second benefit is that the research findings will *contribute to convincing a retailer* that his customers are willing to buy the specific product proposition. Thirdly, it shows long term *commitment* to potential retail partners and guarantees a strategic approach.

In many cases, just qualitative research will be sufficient before seeking commitment from potential retail partners. In some cases, in a second phase, the more expensive quantitative research (taste panel) is recommended.

Depending on the proposition, *qualitative research* based on 3 focus groups is a *minimal requirement*. In these groups, amongst others, the competitive field, usages and attitudes, price levels and usp's will be explored. The Cost of 3 groups of 6-8 respondents varies between 15.000 and 20.000 €.

Qualitative and quantitative consumer surveys in order to prepare for an introduction is often regarded as a risk full upfront investment with no guarantee return. Research is *not mandatory* but highly recommended; it will prevent expensive mismatches and increase the probability of success.



Room for consumer Focus Groups survey

In the case of *own label propositions*, certain retailers will carry out panel research themselves to ensure customer acceptance. This takes place after negotiating and accepting all commercials and trading terms and conditions.

In addition to the above, it is recommended to invest in *scanning data* to understand *the category dynamics*. This way, an analysis can be made to establish potential (total market and per retailer), market leaders and followers, strong and weak competitors, distribution levels, etc. In order to break into a certain category, *data analysis* is crucial in preparing a business offer to a retailer. When listed, a periodic purchase of scanning data is recommended to follow performance and category developments. Top lines Nielsen or Iri France scanning data starts at a rate of € 5 000 and increases when more in-depth data is required.



Blind taste test

For details on French research organizations, see chapter 7.1

3.2 Taxes and duties

3.2.1 VAT

In France, Value Added Tax applies to all products and services sold in retail. 2 different tariffs apply:

- 5,5% is the lowered tariff and is charged on all food items (except for very specific products like caviar, margarine, some candies...)
- 19,6% is the standard tariff for all non-food items, alcoholic beverages and services. It may increase to 21.6% at the end of 2010/beginning of 2011.



All layers in the value chain that add value have to specify VAT (in French “TVA”) separately on the invoice and will have to keep a VAT administration. Except the end user (retailer’s customers) all layers pay and receive VAT. The balance of this will have to be paid to (or will be received from) the French tax authorities.

For exporters to France the following applies;

In the case of exporting food from an EU country to France, adding value will start at the *first chain operator* in France. Invoices to this first chain operator do not include (French) VAT.

- When supplying directly to a *retailer’s depot*, the retailer is the first chain operator and will charge VAT to the customer (end user) and look after VAT administration.
- When supplying to a *3rd. party* like a distributor, this is considered to be the first layer that adds value and will charge VAT to the next chain (retailer) and the retailer will charge VAT to the customer (end user). Both, the *3rd. party* and the retailer will look after their own VAT administration.
- When setting up an *in market branch*, it is mandatory to register at the French tax office and apply for a French VAT number. The branch will be the first operator in the value chain and is required to look after VAT administration

In most cases, especially when starting up exports to France, the first 2 bullet points will apply. It is highly recommended to consult a tax specialist on VAT issues after having a launch agreement.

When discussing or negotiating prices with retailers or other chain operators, reference to prices are always VAT excluded.

3.2.2 Excise duties

Since Ireland and France are members of the EU, no duty is charged on food products entering the French market, although certain products are subject to additional taxes e.g. alcohol.

3.3 Labels and packaging

Labelling/packaging regulations (Directive 2000/13/EC)

3.3.1 General regulations for all pre-packed food products

The following information must be clearly indicated on the packaging, or on an additional sticker, of all pre-packed food products sold in France:

- Product denomination
- List of ingredients in descending order of quantity (not necessary for products containing only one ingredient, as long as the product denomination is identical to this ingredient or clearly identifies the nature of the ingredient)
- In certain cases, the quantity of certain ingredients or categories of ingredients must also be indicated
- Potential allergens
- Net weight
- Best before date or use by date (for chilled food) and particular storage conditions
- Name and address of the manufacturer or processor or of a distributor established within the EU.

- Batch number
- Origin of the product, where the omission of this information would lead to confusion on the part of the consumer as to where the product really originates from.
- Serving conditions when these are necessary for an appropriate usage of the product, and, failing this, particular conditions for usage, notably any precautions.
- Gas-flushed products must indicate the following: “*Conditionné sous atmosphère protectrice*” (packed in a protective atmosphere).

A packaging code is not compulsory, as long as the name and address of the manufacturer, processor or importer/distributor is indicated.

It is also important for exporters to carry out legal checks with the French regulatory authority, the DGCCRF, to ensure that their products do not contain any ingredients or additives that are not authorised in France.

Products of animal/fish origin

For all animal products (meat, poultry, fish etc.) and products of animal origin (e.g. dairy), the manufacturer's or processor's EC certification/factory stamp must be indicated on the packaging.

Products with specific nutritional and health claims

See the “*Food Safety and Quality Standards*” section of this report

Environmental/ recycling requirements



Since 1st April 1992, all French manufacturers/importers must recycle their packaging. This can be done in 2 ways:

Either manufacturers recycle their packaging through their own system of collection + recycling (but this can be very tedious).

Or manufacturers become a member of the Eco-Emballages scheme (collects, sorts + recycles packaging).

Cost of membership depends on the type and weight of the raw material and pack used. Membership is paid by the manufacturer if the product is manufactured in France. For products manufactured abroad, it is the French retailer/distributor who pays the membership costs. This is negotiated between the supplier and retailer/distributor. The Green Point symbol should be on the packaging under all circumstances.

3.3.2 Food Safety and Quality Standards

Following the food crises in recent years, there has been a marked increase in the demand for full traceability in all distribution channels. Buyers all recognise quality standards such as HACCP, BRC and EFSIS. However many buyers also frequently carry out their own audits on factories, particularly for own label development. In addition UK suppliers will be expected to fill in various technical and quality control forms during the listing process.

Suppliers of meat and poultry will also need to check which origins are accepted by buyers, according to current food safety issues.

For seafood products, buyers demand that EU regulations regarding seafood are met (e.g. no animal flour). Full traceability down to the raw materials is also required. Other quality standards such as Label Rouge are subject to strict specifications and controls (e.g. Scottish Label Rouge Salmon).

GMO Issues

While GMOs are not prohibited in food products in France, buyers often demand GMO-free guarantees from suppliers. This demand is likely to be all the more frequent, indeed in May 2008, the French government voted against and then historically changed their vote to be in favour of amendments to the existing legislation regarding GMOs. These amendments now mean that the French have “the freedom to consume and produce with or without GMOs”. Hence, suppliers of products that are GMO free will have to prove this.

Products with specific nutritional and health claims

Irish exporters of products with specific nutritional and health claims should also ensure that they abide by Regulation 1924/2006/EC related to nutritional and health claims on food. This regulation concerns the standardisation of European legislation on nutrition labelling, including health claims.



Organic certification requirements

Currently, European exporters of mainly vegetable-based organic food products (i.e. over 50% vegetable content) may use the French “AB” logo on their packaging as long as they meet current European regulations with regard to organic food production (Regulation 2092/91/EEC), and respect the “AB” graphic guidelines.

European exporters of mainly animal-based organic products (i.e. over 50% content from animal origin) must meet additional French specifications in order to use the “AB” logo. Additional checks can be carried out by their local organic certification body in Ireland.

Since 1st July 2010, the new logo of the European Union must be used for all organic products sold in the European Union. The use of this logo is compulsory. The use of the previous EU logo is optional and most French consumers recognise the French organic logo “AB” rather than the European one.



The new E.U logo for organic products

3.3.3 Packaging

Packaging directly in contact with food items are subject to specific EU regulations. Packaging requirements and regulations are initiated for food safety and environmental purposes and monitored by the Food and Consumer Product Safety Authority, a body from the French department of agriculture.

Shelf space in France is very limited. Retailers prefer packaging that is as efficient as possible to utilize shelf space in the best possible way. As an example, packaging facing the front in portrait format is preferred over landscape format.

Limited shelf space also has an impact on outer cases. Most products just have one facing, end therefore limited in-store stockholding. This requires a very strict replenishment system and small outer cases.

3.4 Logistics

3.4.1 Key points

Logistics are of vital importance in developing exports to France and options should be evaluated prior to approaching potential retail customers. Logistic costs have a large impact on the actual offer and determine if a proposition is feasible or not.

In general, for frozen, chilled and ambient, retailers will not keep stock and still require a high service level, deliveries expected up to 6 times a week to depots for fast rotating chilled products with a short shelf life. In other cases, 1 or 2 deliveries are sufficient when supplying longer shelf life products.

Depending on which channel exporters are looking at approaching, various options are open to them as to which distribution system to put into place. The options include: managing the export business and distribution directly or via a logistics service provider, appointing an agent or an importer/distributor, setting up a joint venture with a local supplier, acquiring a local player or setting up an office in France.

It is not possible to generalise and specify which solution is the best for companies without having all the information at hand related to the products, volumes, shelf life, channel, order and delivery frequency, number of depots to deliver to and their location. The size of the company exporting and the resources available will also have an impact on the distribution model that is adopted.

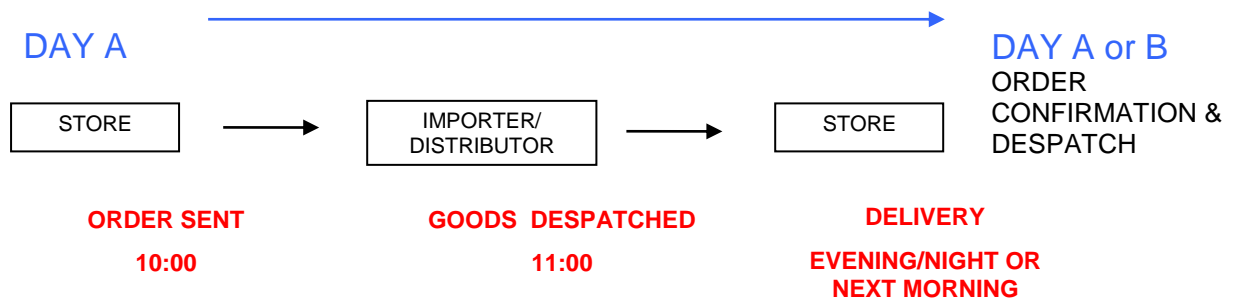
Contract a 3rd. party in France enables the exporter to meet these requirements. In certain cases retailers will suggest a suitable 3rd. party who already supplies this specific retailer. This could be a *logistic service supplier* or a distributor \ manufacturer. In the last case, this distributor\manufacturer will be the customer and invoice the retailer. A direct relationship with the retailer will still be maintained.

To integrate logistic costs in a cost calculation, *optimal pallet loads* need to be determined, in Chep pallets or in Europallets. Hauliers with access to retailers' depots will quote shipments costs per pallet from the manufacturer's site to the retailer's depot, based on expected volumes.

3.4.2 Product shelf life requirements

The following flow charts below illustrate a typical supply chain for chilled products in the retail sector.

Chilled Products



Products are despatched the same morning as the order is received, for delivery either that evening/night or the next morning (depending on the location in France). Importers have to anticipate orders from their customers in order to ensure that goods are already in stock in their warehouse. They are generally flexible regarding the delivery schedule between the Exporter and their warehouse, but once this has been agreed, it is important that the supplier respects it.

The minimum guaranteed shelf life for chilled products is generally 14 days once delivered to the importer's warehouse, or 10-12 days once delivered to the end-customer (although shelf-life will vary according to product type and some importers are able to handle shorter shelf life products in specific cases). It is also important to note that products are generally removed from the shelf 1 day before their expiry date.

Irish suppliers are therefore strongly recommended to work with a local importer, in order to be able to supply small volumes (several cases) to the end-customer on a regular basis.

3.5 Electronic Data Interchange requirements

EDI is defined as: The automated electronic *exchange of data* between the information systems of different organizations according to a predefined structure.

EDI aims to significantly *simplify* administrative operations and to improve the quality and speed of information and data exchange. This enables retailers and their suppliers to *manage the logistical flow* in a better way.

More and more, retailers are using the internet and automated systems to *exchange information*. Taking part in these systems is *mandatory* if a company wants to supply (directly) to a retailer. The extent of detail in which these systems are utilized differs per retailer.

Please note that even though these systems are set-up to be uniform for all (international) retailers, *slight differences* do exist per retailer or even per market causing systems not to be entirely *compatible*. It is recommended to allow sufficient *specialist time* to meet these requirements once a listing is agreed. Below a full description of the systems that are in place in France.

3.5.1 EDI

EDI standardizes the electronic data communication between parties. Retailers in France have selected subsets of the internationally recognized standard EANCOM. These subsets are managed by GS1 France.

Within France the following activities are exchanged and communicated by EDI;

- Ordering
- Delivery
- Stock management
- Invoicing
- Payment

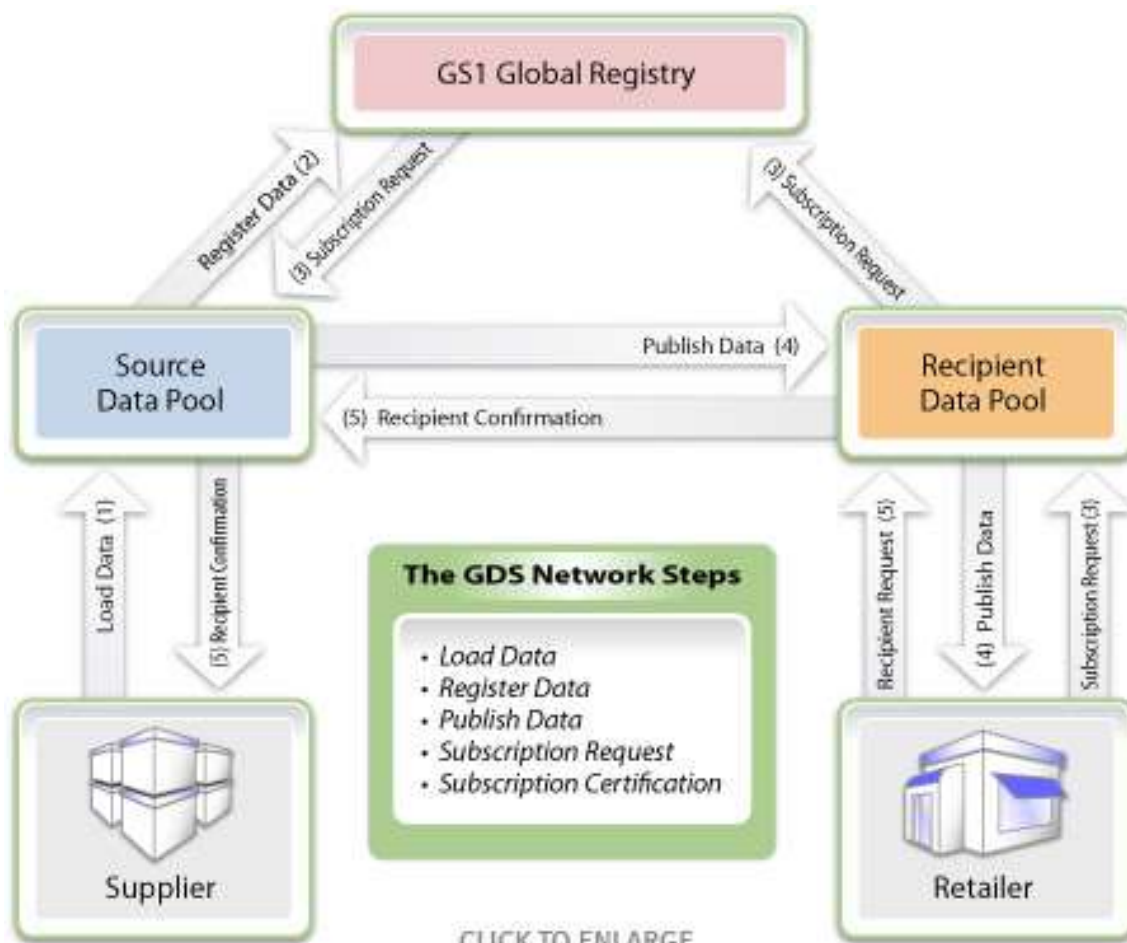
Each message consists of sub-messages on the status of each activity.

All parties involved are identified by GLN (Global Location Number). Product-related information is communicated by GTIN's (Global Trade Identification Number).

To send EDI messages to retailer's the supplier has to be in possession of a valid *EDI certificate*. This certificate demonstrates that the supplier has sufficient knowledge and experience of sending specific EDI messages. The certificate can be obtained by contacting GS1. The lead time for the entire certification process is approximately six months, depending on experience. Suppliers who are using Web-EDI by a VAN provider are not required to obtain a valid certificate.

3.5.2 GDSN

In order to be able to *synchronize data* between the supplier and the buyer, the Global Data Synchronization Network (GDSN) has been introduced as an international *data pool* in which suppliers feed information and retailers extract (selected) information. The Global Data Synchronization Network is based on a global standard. As a result, item master-data entered in one place in a GDSN-certified data pool can be passed on to authorized buyers worldwide.



To become a certified member;

- The supplier becomes a member of a GDSN certified data pool.
- The supplier certifies for the data pool and fills the data pool with article data
- Exchange of data is tested and approved
- Data pool is activated and data will be exchanged

In France pricing and commercials are not yet exchanged via GDSN but through separate documents.

Both, EDI and GDSN are managed and certified by GS1.



For the details on the local GS1 organization please contact GS1. (See *chapter 7.4*)

3.6 Accreditations and certifications

Retailers in France are not more demanding regarding audits and accreditations in comparing to other markets. For own label products, some audits can also take place.

3.6.1 Organic

Since July 2010 the European organic logo has been launched by the European Union, as an alternative to all the different national trademarks for organic food products. To be able to trade organic products in France and use the EU logo, certification of the product and manufacturing process by EU approved organizations is mandatory. Each market has a (number of) certification bodies that carry out audits and certify food manufacturing processes. Certification takes place in the country of manufacturing, or, in the case of co-packing by a 3rd. party in the destination market.

3.6.2 Global Food Safety Initiative (GFSI)

GFSI accreditation as a food safety standard is mandatory for all suppliers, and other retailers are expected to follow this standard in due course.

GFSI exists in multiple formats of which BRC and HACCP are well known.

Certification and auditing takes place in the country of production and will be carried out by private organizations that have audit accreditation by the BRC organization. Different levels of BRC accreditation apply.

4. Retailers

4.1 Distribution Structure

4.1.1 Branded Approach

Partnership with an importer/distributor or local agency

According to French legislation, the importer of foreign goods is held responsible for any quality/health problems incurred by consumers. In the case of direct invoicing from Ireland to the end-customer, the latter is considered to be the importer and is thus held responsible. For this reason, buyers often prefer to work with local importers/distributors or

local agencies, who invoice the end-customer from within France, and thereby take responsibility for any quality problems.

It is important, however, for the supplier to maintain regular contact with the importer/distributor and to make frequent visits to France (including attending meetings with end-customers). The supplier must have a good understanding of the requirements of the French market and be prepared to adapt recipes, packaging etc. In addition, the supplier should also expect to be asked for financial support by the importer/distributor in order to cover sales and marketing activity (eg. in-store promotions, tastings and catalogue...) for their brand. It may also be necessary to have a sales force on hand to visit stores...and of course to speak French, as most buyers do not speak very well English.

4.1.2 Private Label Approach

Irish suppliers of private label products can work directly with retailers. As the product is under the retailer's brand name; no sales force will be required, however, the exporter must be aware that significant flexibility and time investment will be required on their part during the product development and pre-launch phase. It is also important to have a grasp of the French language, or be able to work with a local company, be able to handle the product development and negotiations on behalf of the supplier in the local language.

The French mainstream retail sector is extremely centralized. Seven leading retailers currently control approximately 80% of food purchasing and many hold strong positions internationally.

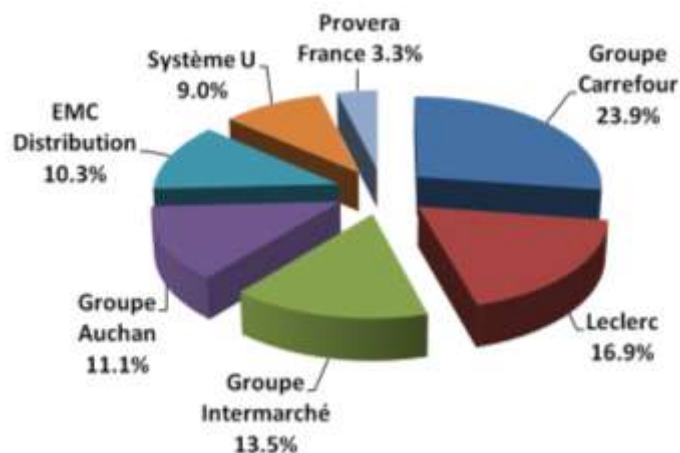
4.1.3 Store openings: the new law

Developments in recent years have altered the country's retail food distribution system. The brand new law "Commercial land settlement" (in French "Réforme de l'Urbanisme Commercial") under which the construction of all stores of over 1000m² are subject to specific new authorisations is restrictive, and should be approved by the National Assembly in 2011. Just like the previous law, the new one is, again, restricting the development of store openings among hyper/supermarkets. The hard discount stores however, will probably continue to flourish, as their surface area is frequently less than 300m².

4.2 Mainstream Retailers

4.2.1 Market Shares

The chart below represents the breakdown of the major retailer groups in France. Over the past decade, major retailers have gone through an ongoing concentration process resulting in the emergence of increasingly large-scale retail outlets. There are currently 7 retail buying groups which manage several different store types.



Source : Distribook 2010 TNS Worldpanel FMCG & chilled convenience
Hyper + super + hard discounts – total net turnover all products excluding fuel & cafés and proximity stores





4.2.2 Stores breakdown




For the past couple of years, mainstream retailers have followed a trend of brand /banner harmonization and simplification (mono-brand multi-format concept stores). For example the supermarket banner “Champion” (Group Carrefour) has been changed to “Carrefour Market”. Retailers are also re-organising their banners based on size and location (Carrefour City, Auchan City, Intermarché Express...)

In reaction to the bad result of hard discounts in 2008-2009, retailers are adapting their hard discount concepts towards soft discount: ex Leclerc launched Leclerc Express soft-discount concept, Netto the hard-discount chain of Intermarché Group is now selling branded products...

You will find below a chart presenting the store categories for each retail group. Please note that the number of stores is changing very quickly, especially in the convenience category which has gone through many changes in the past couple of years. You will find more details or recent developments in the sections below.

Breakdown between hyper markets, super markets and convenience stores

	RETAILER	HYPER	SUPERMARKET	CONVENIENCE STORES
	CARREFOUR GROUP	Carrefour: 231	Carrefour Market: 987 Carrefour Planet: 2	Carrefour City, Carrefour Contact:150 8 à Huit, Shopi: 2000+
	INTERMARCHE GROUP *		Intermarché: 1494	Ecomarché 298
	GALEC/ LECLERC *	Leclerc: 467	Leclerc: 115	Leclerc Express: 50
	AUCHAN GROUP	Auchan: 134	Simply Market: 414	Halles d'Auchan (discount/ chilled): 7 Auchan City: launched end 2010

	EMC DISTRIBUTION	Géant Casino: 120	Casino: 380 Monoprix : 276	Eco Service, Petit Casino: 2500+ Monop': 40+, Daily Monop: 10
	SYSTEME U *	Hyper U: 61	Super U: 718	Marché U:112 U Express: 47
	PROVERA	Cora: 59	Match: 149	Delitrateur

** Independents*

Hard discount groups

	HARD DISCOUNT	No. of stores
	LIDL	1436
	DIA (Carrefour)	49
	ED (Carrefour)	882
	ALDI	858
	LEADER PRICE* (Casino)	559
	NETTO (Intermarché)	387
	LE MUTANT	228
	NORMA	122

4.3 Carrefour Group



With an international turnover of €85.7 billion* (-0,8%), Carrefour is the largest retail group in France and Europe, and the second largest in the world after Walmart. The Group has a strong international presence. More than 55% of Carrefour's turnover is generated outside of France, throughout 34 countries.

In France, Carrefour Group has a 24% market share on food.

- *Hypermarkets*: 231
- *Supermarkets (Carrefour Market)*: 987.
- *Convenience (Proxi/ 8 à Huit / Shopi)*: 2000+
- *Premium Convenience (Carrefour City / Carrefour Contact)*: 150
- *Hard discount*: (ED progressively switching to Dia): 900+

Recent developments

In 2008, "Champion" supermarkets were progressively changed to "Carrefour Market" stores. Carrefour also launched a new concept of upmarket convenience stores: Carrefour City (proximity stores found in city centres) and Carrefour Contact proximity stores located in rural areas.



In August 2010, Carrefour launched a new concept: "Carrefour Planet" developed around 9 "specialty departments". Carrefour Planet aims to offer the best in each "specialty" (eg frozen section based on the successful Picard concept), a large area is dedicated to regional products and "à la coupe" (cheese and meat cut to order).

Profile & competitive advantages

Carrefour Group has a strong reputation for quality, but is seen by consumers as an expensive retailer vs Leclerc or Hard Discounters. This is the reason why Carrefour launched their new range "Carrefour Discount" with a price positioning, and communicated a lot in 2009.

Carrefour wants also to be seen as the most innovative retailer with a "leading position" and therefore has strong demands on quality, traceability and exclusivity (brand and private label).

Carrefour Own Label



« CARREFOUR SELECTION »
« Premium PL »



Themed PL (exotic, organic, nutrition)
"CARREFOUR AGIR", "CARREFOUR EXOTIC"



Standard PL « CARREFOUR »
& Value line « CARREFOUR DISCOUNT »

Supply chain & buying practices

Suppliers of branded products to Carrefour are frequently suppliers of Carrefour's private label products. Carrefour is keen on limiting the number of suppliers.

- Product listings are handled by the central purchasing office. Depots are organised by region and by product. The supplier sells directly to the Carrefour hypermarket depots and invoices these depots centrally.
- There is a possibility to consolidate deliveries (EU listings) to two central depots – one in the North of France and one in the south of France. The depot in the north of France is also used as the central depot to supply Carrefour stores in other European countries.
- The goods still belong to the supplier whilst stocked at the depots. Transfer of ownership takes place when the hypermarket depots place orders and the goods leave the central depot.
- The supplier must take into account additional costs for the stocking of goods and preparation of orders at the depots. This should be integrated into the price proposed to the buyer at Carrefour's central purchasing office.
- A French-speaking person is required in order to handle exchanges with the depots (they do not always speak English and all the documents are in French – no English translation provided).
- The supplier must use EDI / web EDI.

4.4 Leclerc Group



With an international turnover of €35 billion in 2009 (+5%), Leclerc Group is the second biggest retailer in France after Carrefour. Unlike Carrefour and Auchan, most of Leclerc's turnover (92%) is generated in France. Leclerc has a 16,9% market share on food (+0,6%).

Leclerc Group has a national coverage with a stronger presence in the West of France. The group focuses on medium-size hypermarkets (average: 5010 m²), with a wide range of food products.

Diversifying into non-food plays a key role in the Leclerc Group's strategy. The group oversees a network of gas stations, jewelry stores, cafeterias, travel agencies, automobile service centers, and "Cultural Centers".

- *Hypermarkets*: 467
- *Supermarkets*: 115
- *Convenience/ Discount* (Leclerc Express): 50.

Profile & Competitive advantage

Even though Leclerc is not a hard discounter it is known for its "hard discount philosophy" (very competitive on prices) and its support to regional industries, especially for fresh products. Leclerc invests heavily in Private Label development (Marque Repère) and value line (Eco +) to achieve its aim of being the cheapest retailer in France.

Recent developments

In 2009, the group launched Leclerc Express and Leclerc Express Drive, small soft-discount supermarkets focusing on the sale of food. With a majority of private label and value line products (only 25% of brands), Leclerc Express slogan is “Less expensive on the essentials”.



Leclerc Own Label

Private label represents 33% of Leclerc' sales.



Standard PL
« MARQUE REPERE »



Themed PL (regional, organic...)
“NOS REGIONS ONT DU TALENT”
« MARQUE REPERE BIO »



Value
line “ECO +”

Buying practices

- Leclerc Group is managed by independent members: “Retailing Powerhouse Association of Centres Distributeurs E. Leclerc”, is a private cooperative grouping of over 500 members. Each independent retailer owns no more than 3 stores.
- Leclerc has a decentralized purchasing approach:
 - One central Office in the south of Paris (Ivry sur Seine)
 - GALEC (Groupement d'Achat des Centres Leclerc) : purchasing office for branded products
 - SCAMARK – purchasing office for private label products
 - 16 Regional purchasing centers and depots
- Stores are supplied by the 16 regional purchasing centers. The most important regional centers are: SCAPNOR (Paris / North), SCADIF (Paris/South), and centers in North West France.
- The stores have a decentralized buying policy. Being listed at the central purchasing office does not necessarily mean that all regional purchasing centers will buy and order the products listed by the central purchasing office. The central office can only recommend a product to the 16 depots, but there is no guarantee. The negotiation must also be done with the 16 regional depots.
- Leclerc Group has an aggressive price policy: the stores set their prices to be cheaper than their local competitors on as many products as possible. To achieve that strategy, the Leclerc central and regional purchasing offices are putting a lot of pressure on suppliers.

4.5 Les Mousquetaires – Intermarché



With an estimated turnover of €33,9 billion in 2009, Intermarché Group is the no. 3 retail group in France. The group has a market share of 13,5% on food.

Intermarché focuses mainly on supermarkets (1 900 m² average size) with a soft-discount philosophy. The group also operates a chain of clothing and DIY stores (Vetimarché, Bricomarché...).

- *Small Hyper & Supermarkets* (Intermarché): 1494
- *Ecomarché* : 317
- *Hard discount* (Netto) : 387
- *Convenience* (Intermarché Express): 10

Profile and competitive advantages

Similar to Leclerc, Les Mousquetaires-Intermarché is a private cooperative grouping 1200 members. Each independent retailer owns their own store.

Intermarché is the only retailer (with Leclerc to a smaller extent) to be involved in food production. The group operates over 60 production units (slaughterhouses, meat processing factories e.g.: "SVA", "Les salaisons Celtiques" - and fish processing factories e.g.: "Scapeche" and "Scamer"). The group also operates patisserie and bread-making factories. Most of their production units are located in the North West of France.

Recent developments

Setting itself to the trend of harmonization (mono-brand multiformat stores) followed by all the mainstream retailers, Intermarché group announced in 2009 that the "Ecomarché" banner would be changed to "Intermarché". Stores will be divided in 4 different banners based on their size and location: Intermarché Hyper, Intermarché Super (2000m²), Intermarché Express (convenience stores in urban areas) and Intermarché Contact (in rural areas).

The hard discount banner Netto will be slightly amended to become "New Netto" with a soft-discount policy (entrance of branded products).

Own Label

With over 60 production units, Les Mousquetaires Intermarché have developed several brands sold across the group. Private label represents 40% of Intermarché Group's turnover.



Buying practices

Unlike other Independent Retailers (Leclerc), Intermarché has a central purchasing office. Suppliers have to negotiate with buyers at the central purchasing office. Intermarché Buyers for branded products do not have much margin for maneuver, as their OL has a dominant position in the Group.

4.6 Auchan



Auchan is a family-owned group, founded by Gérard Mulliez and now managed by Arnaud Mulliez (CEO). With a turnover of €39,6 billion in 2009 (53% of its turnover generated outside of France), Auchan is the third biggest retailer. Its market share on food and beverages reaches 11%.

The Group has a strong international presence, with 500 stores throughout 13 countries. The group operates hypermarkets and supermarkets, and specialty stores (foods services, sport, clothing, electronics). Up until recently, the group has mainly focused on very large hypermarkets (the largest in France : over 11 000 m² - average 10 500 m²).

- Hypermarkets: 134
- Supermarkets (Simply Market): 414
- Soft-Discount (Halles d'Auchan: focussing on chilled products): 7

Profile & competitive advantages

Auchan caters for families and mainly focuses on large hypermarkets; therefore, the group is highly competitive in terms of choice (large product assortments). Auchan have a large number of suppliers and are open to innovative Small and Medium Enterprises (SME).

Recent developments

In 2009, the "Atac" supermarkets were changed to "Simply Market".

Auchan is trying to diversify from the hypermarket concept (hypermarkets have been losing ground to supermarkets and convenience stores in the past few years), and the group is launching several new concepts: to compete with Carrefour's convenience store concept, Auchan will launch "Auchan City" (supermarkets in city centers) at the end of 2010. Auchan is also planning to launch "Auchan Gourmand", (up-scale) market city supermarkets in 2012.

Auchan Own Label



Premium MDD
« Mmmm! »



Themed MDD "AUCHAN MIEUX VIVRE"
(nutrition, organic...)



Value line
"POUCE"

Auchan buying practices

- Strong demands on quality, traceability, exclusivity (innovation and private label), and Innovations
- Strong competition from hard discounters

Auchan has a centralized buying policy, but, they are trying to keep close to their stores. They organize annual "Commission" (for Christmas, or dedicated to a specific category, or region...), where the Central Office proposes new products, in order to come to an agreement. Sometimes, suppliers are asked to present their product themselves to these "Commissions".

4.7 Groupe Casino EMC Distribution

With an estimated turnover of €30.3 billion in 2009, EMC distribution is the 5th retailing group in France. The group has a market share of 10,3% divided between Groupe Casino (8%) and Monoprix (2,2%).

4.7.1 Groupe Casino



The group focuses mainly on supermarkets and "proximity" with city convenience stores. Although most of its turnover (66%) is generated in France, the Casino Group is present in 10 countries, and also operates foodservices, real estate and banking services.

Hypermarkets (Géant Casino): 120

Supermarkets (Casino): 380

Hard discount (Leader Price): 559

Convenience (Petit Casino, Franprix...): 4000+



Recent developments

In 2010, Casino Group formed a partnership with Relay (newsstand) to open (test) trial stores (in Paris) "Chez Jean" combining catering and an offer of snacks and convenience products.

Profile and competitive advantages

Casino stores cater for families. Since 2008, Groupe Casino has been trying to improve the nutritional quality of its products (reducing levels of salt, special ranges for children...). Casino is the first retailer to measure the environmental impact of its products with the "carbon footprint index". The group also announced in 2009 that it would stop using palm oil in most of its branded and own label food products in a bid to improve their nutritional quality and due to worries about the environment impact of palm tree cultivation. More than 200 products will be guaranteed to be palm oil-free by the end of the year 2010.

Casino Own Label



Premium PL
« CASINO
DELICE »



Themed PL
«SAVEURS
D'AILLEURS»



Themed PL :
« CASINO BIO »
Organic



Standard PL (with carbon
footprint information)

Leader Price Own Label



Value line : Leader
Price products



4.7.2 Monoprix

Since 2003, Monoprix is owned by EMC Groupe Casino (50%) and Galeries Lafayette (50%). Limited in size, Monoprix stores are located in city centers (80% of the turnover is generated in the Paris area).

Although Monoprix represents a small part of EMC distribution's turnover (€3,6 billion), Monoprix is very important to the group with its innovative and good image. Monoprix stores are limited in size (average 1800m²) and have limited shelf space (1500- 4000 ref).

- Monoprix: 330 Supermarkets (2/3 in Paris area)
- Monop: 40+. Mostly food and convenience products with a special focus on chilled
- Daily Monop: 10. Healthy snacking, catering, chilled & convenience products
- Beauty Monop: toiletries and makeup

Profile and competitive advantages

Monoprix targets young professionals and middle-aged urban consumers (either single or 2-person households in particular) with significant disposable income. Monoprix is therefore more opened to new, innovative concepts than any other retailer.

The retailer is particularly open to foreign products and international suppliers (ex: private label of typically British products - breakfast muffins, scones).

Monoprix considers their OL “Monoprix Gourmet”, “Monoprix Bio”... as real brands: a lot of new products are launched to develop the category and Monoprix invests in Communication.



Monoprix stores open late at night to cater for the young urban professionals looking for healthy products

Recent developments

In 2008, Monoprix launched the “Daily Monop” concept, small convenience stores focusing on snacking, catering and chilled products.

In 2009, Monoprix purchased Naturalia a health food chain with 42 stores (38 in Paris area).

Monoprix Own Label



Premium PL
« MONOPRIX
GOURMET »



Themed PL Nutrition
« MONOPRIX BIEN
VIVRE »



Organic PL
« MONOPRIX
Bio »



Standard PL: “M”

Supply chain – buying practices, use of distributors, logistics

- Product listings are handled at head office.
- Monoprix works both directly with suppliers and via specific importers/distributors, depending on the product range and shelf life requirements.
- Depots are classified by region and by product.
- Orders and invoices are handled per depot.



4.8 Systeme U – Les nouveaux Commerçants

With an estimated turnover of €17,8 billion (100% generated in France), and a market share of 9%, Systeme U is the 6th retail group in France.

Similar to Leclerc, and Les Mousquetaires-Intermarché groups, Systeme U is a private cooperative, grouping independent retailers. Systeme U focuses mainly on supermarkets (average size 2100m²).

- *Hypermarkets* (Hyper U) : 61
- *Supermarkets* (Super U): 718
- *Convenience & Proximity* (Marché U becoming Super U and U Express): 112
- U EXPRESS – city center convenience stores: 170

Profile and competitive advantages

Catering for families, the group has a soft-discount policy. According to a Sofres (2009) study, Super U is the favorite supermarket chain for French consumers.

Recent developments

In 2009, System U has increased its total surface area by 8% (store creations and independent stores joining the group of independent retailers).

In the past couple of years, Systeme U has invested heavily on developing private label products. In 2009, Own Label products have increased by 10% and generated 35% of System U's turnover (44% of the volumes).

Own Label



Regional / premium PL
« SAVEURS U »



Organic PL «U Bio»



Exotic PL
« U CUISINE ET
DECOUVERTES »



Value line
"BIEN VU"

Buying practices

- Système U is keen to develop their private label range further ("U," Bien Vu discount range, U Bio...)
- 26 different depots located throughout France
- Main Region : North-West via their depot in Carpiquet (Normandy)

4.9 Provera Groupe (Cora & Match)



The Provera Group has a total market share of 3% on food.

- Hypermarkets (Cora): 59
- Supermarkets (Match): 149

Recent developments

The group recently launched a premium convenience banner in Belgium “Delitrateur”. The concept, closer to catering than retail will be tested in several areas in France in 2010.

Own label



Premium PL
« CORA
DEGUSTATION »



Standard PL

Buying practices

- Cora is mainly rural, developed in the North and East of France
- Cora has a policy based on margin...which means that they do not really fight on RSP, and are considered expensive by consumers.

4.10 Picard



Picard is specialized in premium frozen food. Between 2004 and 2010, the retailer doubled its number of stores from 570 to 813 and its market share (on frozen food) increased from 12 to 21%.

Picard, has an image of high quality and innovation. Picard develops almost exclusively private label products and is very demanding in terms of quality and innovation.

As a leading premium freezing retailer, Picard has set an example to other retailers in terms of product quality and nutritional information.



5. Margins: Characteristics of the French Trade

**«Loi de Modernisation de l'Economie» - LME (Economy Modernization Law)
4th August 2008**

5.1 Context

In 2008, the government decided to pass a law aiming at restoring a fair balance between manufacturers / suppliers and retailers. The economic and trade relations between 7 retailing groups and 10 000 suppliers had become too unbalanced (97% of Manufacturers < 250 people).

France is an exception in the European Union: since 2008, the Retail Selling Prices for food products as well as the relationship between Retailers and Manufacturers are regulated by a new law passed in 2008: “Loi de Modernisation de l'Economie” or LME (Economy Modernization Law), which is quite complex.

5.2 Margins: main outlines of “LME” for branded products

The new law “LME” changes the rules between suppliers and retailers, mainly for branded products. Before this law was passed, suppliers had to pay a specific margin on the TO of branded products, the “Coopération Commerciale” (Commercial Cooperation). This margin was calculated on the total turnover, and could represent from 20% up to 45% of the total turnover (VAT excluded).

Since 2008, manufacturers / suppliers have to sign a yearly “*Convention Unique Annuelle*” (Legal Annual Agreement), which sets out all the responsibilities between the Manufacturers and the Retailers / Distributors.

This agreement includes:

5.2.1 The “Conditions Générales de Vente” (General Sales Conditions)

The “Conditions Générales de Vente” (CGV) are the main base for commercial negotiations for branded products. It must include the following elements:

- The Sales Conditions («conditions de vente»)
- The Retail Selling price («prix de vente»)
- The Price list («tarif»)
- The Discounts («réductions de prix»)
- The Payment terms («conditions de règlement»).

As the CGV is the starting point of the commercial negotiations, the price presented by a given supplier on a given product must be the same for any retailer belonging to the same category.

The different categories can be: e.g. Cash & Carry, online business, Retail, Food Service...

Of course, the price list can be the same for the entire French market.

5.2.2 The “Conditions Particulières de Vente” (Specific Sales Conditions)

Suppliers must present Conditions Particulières de Vente (CPV), « Specific Sales conditions », which are specific for each retailer. The “Specific Sales Conditions” replace, totally or partially the “Coopération commerciale” margin (used before 2008). E.g. : if the “Coopération commerciale” was 30% before the LME, the new breakdown can be : 20% of “Coopération commerciale » + 10% of “Specific Sales Conditions” (CPV).

The CPV are not public; they can be different for each Retailer in the same category; they are written in the annual agreement. The CPV (e.g. – 10%) must appear on the invoice. The CPV must be very precise: they compensate for different services and objectives that the retailer commits to such as:

- Objective of growth (business plan)
- Turnover,
- Non-decrease of the TO,
- Gain of Market Share,
- Superior growth than competitors

The CPV can be expressed:

- In % of the Turnover
- In € / kg
- In value (€)

Margin requirements

The diagram below shows average margins taken at each stage of the distribution channel.

- Logistic discount for a delivery to Depot: - 5%
- Discount for a special offer on a product: - 10%
- Margin paid to the Retailer before LME (“Coopération commerciale”): 30%
- Margin paid to the Retailer after LME : 15% of “Conditions Particulières de Vente” + 15% of “Coopération commerciale”

BEFORE LME		AFTER LME	
PRICE :	100	PRICE:	100
Discount Delivery to Depot :	-5%	Discount Delivery to Depot :	-5%
Discount:	-10%	Discount:	-10%
Net price VAT excluded:	85.50€	Specific Sales Conditions (CPV):	-15%
Margin of the Retailer	+20%	Net price VAT excluded:	72.68 €
VAT	+5.5%	Margin of the Retailer	+20%
RSP:	108.24€	VAT	+5.5%
		RSP:	92.00€
Margin of the Retailer (coop cciale)		Margin of the Retailer (coop cciale)	
Net price VAT excluded:	85.50€	Net price VAT excluded:	72.68 €HT
Margin of the Retailer	30%	Margin of the Retailer	15%
3xnet Price of the Retailer	59.85€	3xnet Price of the Retailer :	61.78€

IN RED : MARGIN OF THE RETAILER, PAID BY THE SUPPLIER

In theory, with the new law, Retail Selling Price and subsequently, the retailer's margin should decrease. Put in practice, the LME has not contributed to a decrease of the average RSP and none of the Retailers accepted to lower their margin...

A consequence of LME is that the new law pushed retailers to develop their Private Labels products, as getting a margin on branded products is becoming more and more difficult.

Other key points that suppliers should note:

- Suppliers should be very focus on their RSP when developing innovative products as Retailers use it to gain a little bit more of margin. As there is no “official” fight on the RSP, Retailers tend to be more “greedy” on innovations.
- Each retailers developed his own tools, or have a specific method to compare its RSP with competitors. E.g : Leclerc has created a specific website to compare his prices nationally: <http://www.quiestlemoinscher.com/>. Carrefour works with “Price Zone”, it means that each Carrefour store defines the 10 less expensive stores in their zone, to fix its own RSP.
- Cora is not a very competitive in term of RSP, as their Strategy is rather based on a Margin positioning vs a Competitive image (Leclerc). They may be less demanding in terms of “price pressure”.
- Monoprix are not competitive in terms of RSP either: Monoprix stores are located in town-centres, and 2/3 are in Paris area. They target young professionals and middle-aged urban consumers with significant disposable income which means that they focus on quality chilled, convenience products and innovative products.... Their margin on new products can reach up to 50%.
- There is no rule to define an average margin: it depends on the fixture (the margin on fresh products can go from 15%...to 50%), the product (there is less fight on RSP of new product than on category best sellers), and the Retailers' objectives (global margin or Price image)...

5.2.3 Payment Terms

In 2008, the supplier payment terms in France were considerably above the European standard: 67 days vs 57 days in other European countries. In order to improve cash flow and financing conditions for suppliers, the new law reduced the payment deadline to: 60 days (from date of invoice) or 45 days end of the month.

The Annual Agreement must be signed by the 1st March of that year, or in the following 2 months of the beginning of the trade, if the products are sold on a specific period (seasonal products).

Some products are not submitted to these rules, while they are directly sold to the consumer: fresh fruit and vegetables, frozen or fresh meats, poultry, rabbit, eggs, honey. Amendments can be signed during the year, but it must remain exceptional and should not change the Annual Agreement as a whole.

E.g. of amendments: launch of a new product, change of the sales policy, significant growth of Turn Over ...

5.3 Promotions

5.3.1 Nouveaux Instruments Promotionnels (NIP) “New Promotional Tools”

Definition: The «New Promotional Tools» represent all the different promotional techniques developed by the French mainstream retailers, since the 90's. Retailers ask for additional specific budget (branded products) for these promotions.

These new promotional tools are mainly:

- **The « cagnottage » (kitty / pool):** The « cagnottage » consists in saving money (e.g. -15% on shrimps from a specific fixture), and keep the amount saved on the retailer's loyalty card. The offer can be in € (eg. -1€), or in % (-15% of the RSP), or in points (+15 points on your card; and 10 points = 0,10€). This technique is the most popular promotional tool used by Retailers.



- **« Transversal promotions »:** promotions on different products of several brands or manufacturers.



- **« Lot Virtuel »:** “virtual packs”, as opposed to “real packs” (where products are packed together), allow the consumer to combine products of the same brand, or range to save money. E.g : BOGOF (Buy One Get One Free) , or buy 2, get the 3rd free...



Of course, all these kinds of promotions can be cumulated.

Breakdown of the different NIP: cards (73 %), virtual lots (53 %), real lots (21 %), free products (41 %)...

New Promotion Tools and Annual Agreement:

Promotion aiming the consumer directly and immediately (“NIPS sous mandat”) are not written in the Annual Agreement, as opposed to the other promotions (e.g. : with deferred reimbursement) which must be written in the Annual Agreement.

5.3.2 Promotion of alcohol

French regulation is extremely strict regarding alcohol promotion.

The “Loi Evin” (alcohol policy law) was passed in France in 1991 (Loi n°91-32 du 10 janvier 1991) in order to control advertising of alcohol and tobacco. Direct advertising of tobacco had already been forbidden in France since 1974 (Loi Veil); the new clauses relating to tobacco in Loi Evin addressed the issue of smoking in public places. The clauses relating to alcohol, on the other hand, were new and initiated a real change.

Alcohol clauses of Evin Law:

The clauses relating to alcohol in the Loi Evin may be summarized as followed:

Clear definition of alcoholic drinks:

- All drinks over 1.2% alcohol by volume are considered as alcoholic beverages.

Places and media where advertising is authorized are defined:

- No advertising should be targeting young people under 18
- No advertising about alcohol is allowed on television or in cinemas;
- No sponsorship of cultural or sport events is permitted;
- Advertising is permitted only in the press for adults, on billboards, on radio channels (under precise conditions), at special events or places such as wine fairs, wine museums.

When advertising is permitted, its content is controlled:

- Messages and images should refer only to the qualities of the products such as degree, origin, composition, means of production, patterns of consumption ;
- A health message must be included on each advertisement (l’abus d’alcool est dangereux pour la santé” : alcohol abuse is dangerous for health).

The law has been modified in July 2009: advertising of alcohol is now authorized on the internet, except on websites targeting the youth, and under very precise conditions. (e.g.: you have to declare that you are “over the legal drinking age” (18 years) before accessing a web site...) More information on: <http://www.arpp-pub.org/>

5.4 Margins : main outlines for Private Label products

For Private Label products, margin requirements are different and simpler:

- Contracts can last several years: over the past 5 years, contracts were signed for 2 years in average. Nowadays, retailers tend to be more demanding in terms of innovation, new products and reactivity, so contracts tend to be reduced to 1 year only. Our recommendation is to specify the minimum notice period in the event of termination or breach of contract.
- Even if retailers should not charge suppliers to promote their own products, they frequently ask for additional budget like samples, tasting sessions...
- Price list is considered « 3 x net » (no additional discount).
- In Private Label propositions, suppliers are requested to be completely transparent about their price and cost structure: retailers request an “Open Book Pricing” information. The buyers utilize internal knowledge on ingredient price levels and price fluctuations as well as logistic costs, to check the price breakdown of added value products. In case of unexplainable differences, the manufacturer is prompted to explain.

The calculation is as followed:

Net Price per Unit (on the invoice)
+ Tax (5,5%)
= Retail Selling Price

6. Case Studies

6.1 Case Study – Company 1 (ambient product)

6.1.1 Profile

<i>Company size</i>	85M€ 450 employees
<i>Product range</i>	The company is one of the leading E.U dried food manufacturers. The company manufactures a wide variety of ambient products including soup, pasta, rice, dinner kits and desserts. Products are sold both under brand and private label. In total the company manufactures over 600 different products.
<i>Market sector</i>	100% retail (70% private label)
<i>Key customers</i>	<u>Export:</u> Leading French, Spanish, Australian and South African retailers. Some retail business in other European countries such as Germany, Austria and also in the Middle East.
<i>Quality systems</i>	EFFSIS BRC higher level
<i>Pack formats</i>	Many different kinds of packaging that can be adapted depending on the client's requirements.
<i>USP</i>	An extensive research and development team constantly creating and adapting recipes. Recognised expertise in the field of private label development. All products are natural and do not contain any artificial colours, flavourings or preservatives.

6.1.2 Existing export business

- Company 1 is retail-focused and all export accounts are in the retail sector. The Company has been exporting to Australia for over six years now and to Europe since 2006.
- Within Europe, company 1 has a presence in the French and Spanish retail markets in particular, as well as doing a small amount of business in Germany and Austria. The Company is currently looking at developing business in other European countries namely the Netherlands and Belgium.
- Other export markets include South Africa and the Middle East.

Business in France

- Company 1 is listed with one of the top French retailers. They supply 3 ambient dinner kits under private label. The products have a shelf life of 15 months. Annual volumes are approximately 150 000 units / SKU.
- Company 1 also supplies products for “one off” promotions with other retailers. These usually involve branded products and the volumes are quite small (less than 10 000 units per SKU). They are based on one order per depot to cover the entire promotional period.
- Negotiations are underway with other leading retailers with a view to developing a variety of products under private label for national distribution.

6.1.3 Export business in the local markets

- Company 1 exports products across the world. They consider that each export market (be it European or further afield) should be assessed, analysed and then handled individually depending on the local market, the retail structure, the products involved and the distribution required. The distance from certain countries, such as South Africa and Australia dictate to a certain extent the possible routes to market open to Company 1.

France

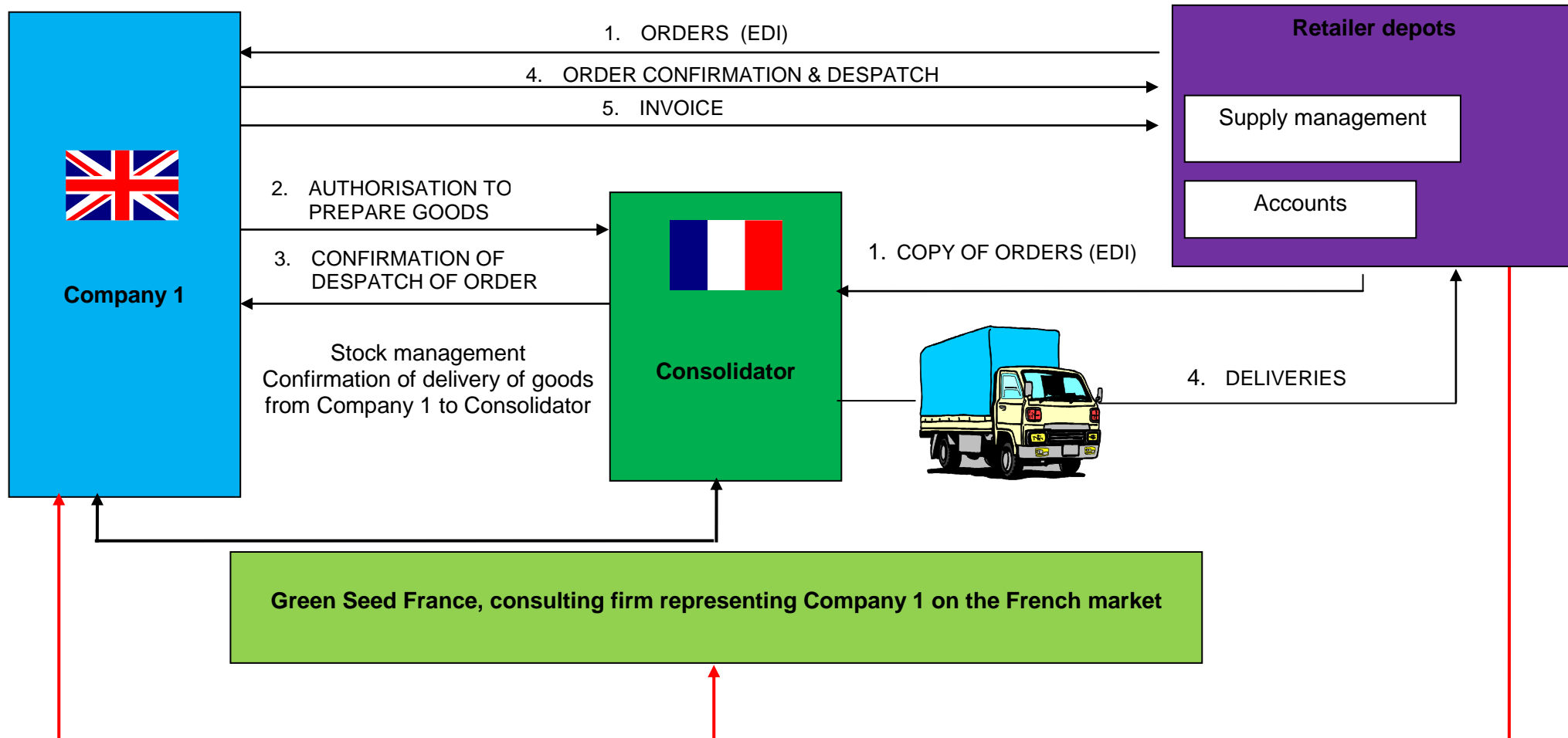
- The French market is managed in collaboration with GSG France. All existing business, with the exception of “one off” promotions, is private label.
- A local consolidator based in northern France is used to handle the storage, order preparation and logistics (if required).
- This consolidator has established relations with many of the leading French retailers and is able to consolidate orders (from several different suppliers) to certain retailer depots enabling the supplier to benefit from reduced cost in terms of transport.

Leading retail account

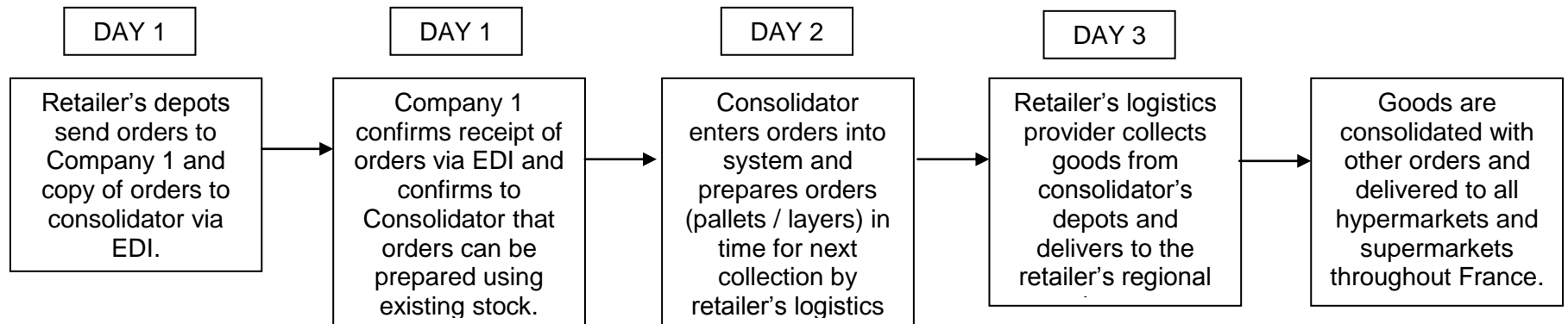
- The agreement with the retailer is that these goods are supplied ex-works (consolidator's depot in France).
- Company 1 receives orders from the retailer's 16 regional depots via EDI.
- These orders are also simultaneously transferred by the retailer's depots to Company 1's consolidator.
- Company 1 confirms receipt of these orders via EDI and informs the consolidator that they can use the existing stock available at the depot to prepare these orders.
- The consolidator enters these orders into their system and the orders are prepared. Orders may be entire pallets or layers.

- The consolidator liaises with the retailer's logistics provider and confirms date and time for the collection of the goods. The logistics provider collects goods from the consolidator several times a week.
- The retailer's logistics provider collects the goods from the consolidator's depot in northern France and despatches the goods to the 16 regional depots. From here, the goods are then re-despatched and delivered to the retailer's hypermarkets and supermarkets (over 500 in total).
- The retailer's logistics provider sends proof of delivery to Company 1 to confirm the volume of goods delivered to each of the regional depots.
- Based on this, Company 1's prepares and issues invoices to all the 16 depots (one order = one invoice).
- The consolidator invoices Company 1 on a monthly basis for the storage of goods, order entry and preparation.
- The retailer requests lead times of day 1 for day 3. This means that Company 1 has to constantly ensure that there is sufficient stock at the consolidator's depot. This is handled based on experience and provisional sales provided by the retailer.
- The consolidator and Company 1 have an agreement whereby the consolidator informs Company 1 by email / fax when their existing stock at the depot gets below a certain level. This level is the equivalent of 5 week's stock.
- Company 1 can then plan and produce the next batch of dinner kits in order to ensure that there is always sufficient stock at their consolidator's depot.

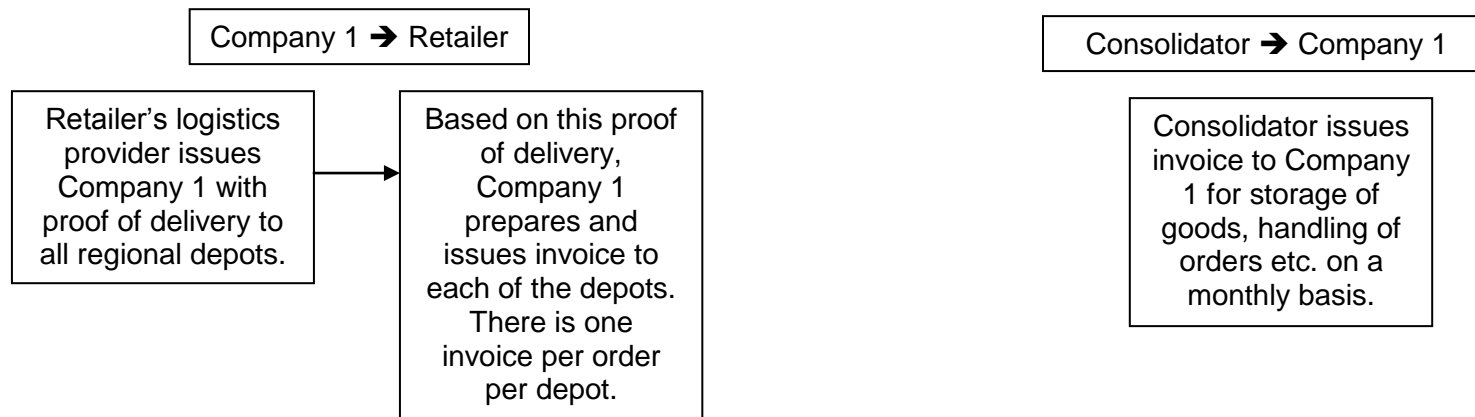
Company 1's distribution model for France (leading retail account)



Order and Delivery Process (leading retail account – ex-works consolidator's depot)



Invoicing



6.1.4 Identification & selection of preferred distribution system

- GSG France has been working with Company 1 for many years now. The relationship began with GSG France introducing Company 1 to the French retail scene; providing them with key market data and visiting stores with them. This enabled Company 1 to better understand the French market and the USP's they could bring versus existing competition.
- Company 1 was then introduced to retailers by GSG France in order to assess the level of interest in their products. Very quickly it was agreed that a logistics solution was required in order to secure future listings with retailers.
- Despite interest shown in the early days by certain retailers, the fact that Company 1 was not French and did not have a depot in France clearly posed an issue, indeed it was considered to be a handicap.

Various distribution systems were discussed with Company 1:

Work directly with retailers

- Company 1 decided that in the short to medium term, the best way to handle their account would be for GSG France to continue acting as their account manager for France managing all introductions with the trade and subsequent private label development.
- It was agreed that it was important for Company 1 to have a stock of goods at a depot in France in order to enable them to offer the same lead times as their French competitors.
- GSG France therefore presented Company 1 to a particular consolidator who already works with UK suppliers and has established relationships with many of the leading French retailers. This consolidator only handles ambient goods.

Partnership with local importer/distributor or an agent

- It was agreed that both of these options could represent interest for Company 1 if they decided to focus on branded development, particularly if the local importer/distributor or the agent was able to provide a sales force to support the brand.
- Company 1 chose not to pursue either of these route as their focus for France is very much on private label development in the first instance. Establishing an unknown foreign brand in France requires significant investment and resources. Private label can often be an "easier" first step for a company that is new to the French market. Company 1 would however consider this route were they to change their focus and look at developing one of their brands in France.

Commercial joint venture with a local French player

- The possibility of establishing a commercial joint venture with a local French player was also explored. This would have enabled Company 1 to benefit from the French company's distribution network and contacts.
- Store checks were carried out by GSG France and potential partners were identified. This option was however abandoned in the first instance as well, given the limited business currently established by Company 1 and the fact that Company 1's product portfolio is so vast, most potential partners are also in fact competitors. It was however agreed that this solution could represent an interest in the medium to long term.

Acquisition of a local player

- This option was not really explored at all, as it was not considered to be financially viable at this stage.

Setting up a local office

- The possibility of establishing a French office for Company 1 was considered to be too risky, given the fact that no real business had been established and the resources were not available. (At that time Company 1 only had 1 full time assistant and 1 part time Export Manager).

6.1.5 Adaptation to change in volumes, customers, accounts

- By using a consolidator based in France, Company 1 is meeting the retailers' expectations in terms of distribution.
- It has already been determined that the existing consolidator can be used to handle other future retail accounts, given the consolidator's reputation, experience and existing agreements with the leading retailers.
- In the medium to long term, Company 1 may consider having a base in France or establishing a partnership with a local player. This would definitely be an option if Company 1 decided to launch branded products in France. By working in collaboration with a local player, Company 1 could benefit from the local player's experience, relations with the trade and most importantly their local sales force which are key when launching a brand in France.

6.2 Case Study – Company 2 (chilled)

6.2.1 Profile

<i>Company size</i>	The company has doubled in size in the last 5 years through organic growth. Over 160M€ turnover 200 employees
<i>Product range</i>	Fresh soup, 100% fruit drinks, fresh cut fruit, chilled ready meals, desserts... The company is one of the leading UK manufacturers of fresh chilled drinks. Products are sold both under brand and private label.
<i>Market sector</i>	Retail (both branded and private label) and foodservice (retail: 70% and foodservice: 30%)
<i>Key customers</i>	<u>Export:</u> France: various leading retail and foodservice players Ireland: manufacturer Belgium: leading retailers The Netherlands: leading retailer & department store
<i>Quality systems</i>	EFFSIS BRC higher level
<i>Pack formats</i>	Many different kinds of packaging including their recently launched foodservice packs for soup and individual packs for retail.
<i>USP</i>	Large range of products of premium quality

6.2.2 Existing export business

- Company 2's current export business is worth 2.9M€ and the forecast for 2010 is 5M€. The majority of this export business comes from 2 product categories: fresh soup and drinks.

Ireland

- Company 2 manufactures desserts on behalf of an Irish manufacturer.

Belgium

- Branded and private label soup is sold to 2 leading Belgian retailers. Company 2 also supplies private label fruit juice and smoothies to another retailer.

The Netherlands

- Company 2 supplies private label desserts to leading Dutch retailer, Albert Heijn and fruit juice and smoothies to the chain of department stores HEMA.

France

- Company 2 has been present in France for over ten years supplying chilled soup, fruit juice and smoothies. The Company has a presence in both the French retail and foodservice sectors. Customers include: Carrefour, Monoprix, Monop', Auchan etc., various convenience store chains belonging to these leading retailers, as well as various sandwich and snack bars.
- Products are sold almost exclusively in central Paris and Paris suburbs.
- In terms of volumes, Company 2 delivers 1 full truck to France three times a week.
- Company 2 is interested in developing their business in other European markets such as Spain, but given the nature of their products, shelf life constraints, this is a market that they think would be difficult to handle in terms of logistics.

6.2.3 Export business in the local markets

- Company 2 has over ten years experience exporting to Europe and this experience has lead the company to approach each export market differently, taking into account the specific requirements and constraints of each market.

Business in France

- Company 2's local importer/distributor buys the goods from them and then sells them on directly to their various retail and foodservice customers.
- The importer/distributor sends orders to Company 2 based on provisional sales forecasts. Company 2 delivers the importer/distributor and invoices them directly.
- The importer/distributor manages a stock holding and uses this to honour orders.
- Lead times depend on the products, but Company 2 always makes to order and therefore requires several days to prepare and despatch the goods to France.
- Company 2 delivers to their importer/distributor's depot in the Paris region 3 times a week. Each time they deliver a full truck using dedicated vehicles.
- The importer/distributor then consolidates orders from various suppliers and delivers to retailer depots, foodservice depots and sandwich and snack bars using their preferred third party logistics provider.
- The shelf life of Company 2's product range varies from 7-22 days from production depending on the product. The efficiency of the logistics model used by Company 2 is therefore key to securing and retaining listings with French customers.

6.2.4 Identification & selection of preferred distribution system

- Company 2 has been working with their French importer/distributor for over 10 years now.
- The importer/distributor and Company 2 that was new to export at the time were both focused on targeting the snacking market. Both companies shared the same energetic and dynamic approach in developing Company 2's exports.
- The fact that the importer/distributor was present in both the retail and foodservice sectors was also a determining factor.
- Over the past 10 years, both Company 2 and the importer/distributor have grown together and adapted the frequency of their orders and the quantities gradually as business has developed in France.
- Given the initial level of sales, the importer/distributor approach seemed the most obvious and efficient route to market for Company 2. Setting up a local office, acquiring a local player or establishing a commercial joint venture with a local player did not seem appropriate at such an early stage.
- Equally, working direct with the retailers was not an option for two reasons. Delivering chilled products to all the different retailer depots throughout France as well as to the sandwich and snack bars would have been very difficult and complicated for Company 2 to handle directly. Also, for branded products, Company 2 would have needed to recruit a local sales force to "sell" their products to the "chef de rayon" (category manager in store) and ensure that their products were ordered and correctly merchandised.
- Also, the importer/distributor's sales force could be used to promote Company 2's branded products to the trade in order to increase their presence and ensure that the products were correctly merchandised.

6.2.5 Adaptation to changes in volumes, customers, accounts

- When Company 2 began exporting to France, their importer/distributor was much smaller and the two companies have actually grown and developed their businesses together.
- The importer/distributor initially had a stronger presence in the foodservice sector but has since developed an equally strong presence in the retail sector as well, notably through Company 2's products.
- Over the 10 years the two companies have been working together, various new products have been added to the portfolio sold in France by Company 2.
- Initially Company 2 was exporting fresh soup to France, but they now also export fruit juice and smoothies. The existing distribution system was able to handle these additional products as it meant that overall volumes were increased so delivery to France became more profitable. The frequency of deliveries also needed to be increased, in order to handle the short shelf life of some of the fruit juices and smoothies.
- Should volumes significantly increase in the medium to long term in France and indeed the other European countries in which Company 2 is present, they would perhaps consider setting up a hub somewhere in France to consolidate stock in order to service all their European markets from there.

7. Additional sources of information and references

7.1 Research

Association Nationale des Industries Alimentaires

21 rue Leblanc - 75015 Paris

Phone : +33 1 53 83 86 00

Fax: +33 (0) 1 53 83 92 37

Mail : amaury@ania.net

www.ania.net/fr



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Phone : + 33 1 42 74 28 00

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Quantitative Marketing Survey : Nielsen – France :

9, Avenue des 3 Fontaines

95007 CERGY PONTOISE

FRANCE

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Fax : +33 1 30 38 60 77

E-mail : Site-Informations@nielsen.com

www.fr.nielsen.com



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4 rue André Derain

78244 Chambourcy cedex

FRANCE

Tel +33 (0)1 30 06 25 88

Fax +33 (0)1 30 65 09 49

www.symphonymiri.fr



7.2 Taxes and duties

French Customs Authority

Info Douanes Services

Phone: +33 820 02 44 44 (0,12 € TTC/minute)

<http://www.douane.gouv.fr>



French tax authority

<http://www.impots.gouv.fr>



French National Assembly

<http://www.assemblee-nationale.fr/>



7.3 Packaging and labeling

AFNOR - French standardization – ISO

11, rue Francis de Pressensé
93571 La Plaine Saint-Denis Cedex
Phone: +33 (0)1 41 62 80 00
Fax : +33 (0)1 49 17 90 00
www.afnor.org



ARPP – Autorité de Régulation Professionnelle de la Publicité

French advertising self-regulatory organization
23, rue Auguste Vacquerie
75 116 Paris
Phone: + 33 (0)1 40 15 15 40
Fax : + 33 (0)1 40 15 15 41
contact@arpp.org
<http://www.arpp-pub.org/>

7.4 Electronic Data Exchange

GS1 France

2 rue Maurice Hartmann
92137 Issy les Moulineaux Cedex

Phone: + 33 1 409 554 10
Fax: + 33 1 409 554 49
Web site: <http://www.gs1.fr>
Email: infos@gs1fr.org
Chief Executive Officer: Pierre Georget



7.5 Retailers

CARREFOUR France

6 quai Michelet
92300 Levallois Perret
Phone: +33 1 58 63 30 00



AUCHAN France

200, rue de la Recherche
59650 Villeneuve d'Ascq
Phone : +33 3 28 37 67 00
Fax : +33 3 20 67 55 20



LECLERC

26 quai Marcel BOYER
BP 300004
94859 IVRY SUR SEINE CEDEX
France
Phone: +33 1 49 87 50 00



INTERMARCHE

Parc de Tréville
21, allée des Mousquetaires
91078 BONDOUFLE CEDEX
Phone: +33 1 69 64 10 00

**GROUPE EMC CASINO**

28 rue des Vieilles Vignes
77183 CROISSY-BEAUBOURG
France
Phone: +33 1 61 44 70 00

**CORA FRANCE**

Provera Alimentaire
1 rue du Chenil
Domaine de Beaubourg
77435 Marne La Vallée Cedex
Phone: +33 1 64 62 79 00

**LIDL France**

35, Rue Charles Péguy
BP 32 67039 STRASBOURG Cedex 2
Phone: + 33 3 88 30 94 00
Fax: +33 3 88 29 00 29
www.lidl.fr

**7.6 French Food Trade Shows****SIAL:**

Salon International de l'Alimentation
17-21 October 2010 at Paris Nord Villepinte
www.sial.fr

Salon International de l'Emballage:
22-25 November 2010 at Paris Nord Villepinte
www.emballageweb.com

SIRHA:

22-26 January 2011 Eurexpo Lyon
<http://www.sirha.com/intro/>

SANDWICH & SNACK SHOW:

2 – 3 March 2011 in Paris
<http://www.sandwichshows.com/>

IPA:

Salon International Process Alimentaire
17-21 October 2010 at Paris Nord Villepinte
www.ipa-web.com