

# CASE STUDY

*LAUNCHING AN AMBIENT PRODUCT ONTO THE GERMAN MARKET*

---

## BORD BIA

*Prepared for Bord Bia by Green Seed Germany*

*August 2010*



## Situation

The company is a manufacturer of a range of ambient products and well established in various European markets with experience in exporting. Historically, the opportunity had not arisen to enter the German market. A decision was made to rectify this as part of a general expansion programme and to reduce further reliance on a strong domestic market.

## Action

Green Seed Germany was requested to develop a strategic plan for the launch into Germany. Because of the complexity and expense of a mainstream launch, it was recommended to first approach one leading national food retailer. After consideration of options and a thorough market analysis in the form of store checks, it was decided to focus on REWE supermarkets and achieve a national listing.



In recent years, REWE has become the retailer which is most open to the listing of new products, seeing this as a point of difference to the discounters and enabling it to achieve above average growth rates. Excluding discounters, REWE is the largest fascia in which national distribution can be achieved as an exporter via one central contact point.

First of all the manufacturer was recommended to calculate a price using an average RSP from competitor products as a starting point. Furthermore, the fees to be paid to the selected service provider Green Dot had to be incorporated into the price calculation. The manufacturer requested from his domestic logistics company a quote for delivery to all REWE DCs across Germany as a worst case scenario. Even taking this into account a launch in Germany was still feasible.

After verifying that, the manufacturer was recommended to carry out a consumer check of the products he intended to launch in order to confirm taste acceptance amongst various potential target markets. This was carried out in Frankfurt with various age and socio-economic groups. 3–4 group discussions were sufficient for this and cost € 15-20,000. This gave the manufacturer the reassurance that the launch would work and allowed consumer acceptance to be incorporated into the trade presentation for REWE.

German language packaging was then developed. Proposed packaging layout including text and product samples were sent to a recognised test institute who within two weeks came back with slight corrections (wording of allergy advice) and otherwise an official confirmation that the products were suitable and legal for a launch into the German market.

As an initial step, Green Seed Germany developed a PowerPoint trade presentation (approx. 10 charts) introducing the company, its success internationally and its aspirations for the German market as well as products and USPs. Telephone contact was made with the relevant CatMan of REWE fascia. He then requested that samples and the presentation should be sent to him to discuss it internally with the rest of the category team. Subsequently, two weeks later, he phoned to request in writing a first price estimate (German: Preisindikation).

3 weeks later, a meeting was arranged in Cologne with GSG, the manufacturer and the CatMan. The manufacturer was requested to give the German language PowerPoint presentation on his laptop in the CatMan's office. Interest during the presentation continued to grow, in particular as it was shown from experience in other European markets how the product performs and has to be positioned vs. existing competition.

At that moment, the conversation turned to the major topic of price. The manufacturer had to give a consumer price recommendation. The CatMan then pointed out what retail price in his estimation and including VAT the product should be marketed at to be successful and survive in the competitive environment. He then explained that he expected a margin of at least 35 % in that category and also what kind of advertising support would be needed. This margin expectation is not dissimilar to most other Continental European markets.

The indicated price was higher than the CatMan was prepared to accept. He did, however, understand that the manufacturer was not able to reduce the quote considerably. The CatMan had certain flexibility with regard to distribution options. He was able to offer central distribution for the REWE fascia into one DC not too far from Cologne, thus saving the manufacturer a considerable amount of distribution cost within Germany. Otherwise, he would have had to supply into at least 12-20 depots.

In terms of promotional activities for the coming calendar year, it was agreed to place an ad (pack shot with description and price) in two sales leaflets, one in Spring, one in Autumn. The buyer expected for the promotional period a reduced price of about -15 % from the manufacturer which was to be passed on to the consumer and featured in the ad.

To list the products nationally in REWE stores (over 3,000 outlets) and to insert an ad in two sales leaflets the amount payable is a question of negotiation. It is difficult to generalise as so many factors are involved. It frequently depends on the degree of uniqueness of the product. The more the product is a me-too, the more likely the buyer will need really persuading to consider listing. Of course, the larger the company, the more the buyer realises that a larger sum is possible. And persuasion means money. Amounts can vary between € 20,000 and € 100,000+. It is also more expensive for a new company to enter REWE than for a further line extension for an existing product range.

In preparation for the listing, the next step was to set up the manufacturer in REWE's systems and vice versa. Master Data (German: Stammdaten) was exchanged. This included such details as:

- Company (trading) name and legal form
- Address
- Contact details Key Account / Export Manager or buying department
- Contact details accounting
- VAT number (German: Mehrwertsteuer or abbreviated to MwSt.)
- Bank account
- Fax number for ordering
- GLN (Global Location Number)
- Delivery time from ordering

In addition, the company then had to supply to REWE with Item Master Data (German: Artikelstammdaten). This included:

Artikelbezeichnung	Item name
Artikel Nummer	Item number
Gebinde Einheit	Units per outer
Inhalt in g oder ml netto (ohne Verpackung)	Contents in g or ml net (without packaging)
Inhalt in g brutto (mit Verpackung)	Contents in g or ml gross (with packaging)
Brutto Gewicht Einheit in g	Gross weight per unit in g
Artikel EAN	EAN number SKU
Karton EAN	EAN number case
Maße Einzelartikel in cm H/B/T	Dimensions of product in cm (height/width/depth)
Karton Maße in cm H/B/T	Dimensions of case in cm (height/width/depth)
Restlaufzeit (Tage)	Remaining shelf-life (days)
MHD (Tage)	BBE (days)
Lieferzeitraum	Delivery lead time
Palettenhöhe im mm	Height of pallet in mm
Lagen / Paletten	Layers per pallet
Anzahl Einheiten je Palette	Number of outers per pallet
Anzahl Stückzahl je Palette	Number of products per pallet
Bruttogewicht Palette in g	Gross weight of pallet in g
Zolltarifnummer	Customs tariff number
Ursprungsland	Country of origin



After this exchange of information the first order was placed. The manufacturer delivered to a single REWE Group DC. Regional REWE Group depots place orders with this DC and stock is then forwarded to the regions, then from regional depots to stores.

Sales were monitored over several months. Sales rates were good and turnover of more than € 100,000 was achieved within this period. As of € 100,000 annual turnover a product becomes interesting to REWE from a Group perspective. Hence, a meeting with the REWE Group buying team was arranged. These are a separate group of people who work almost independently of the buying teams for the fascia (REWE, toom, Karstadt, Penny etc.). With REWE Group buying the manufacturer had to rediscuss the prices. These prices and conditions then were valid for the entire Group for the coming calendar year. It is worth noting here that price increases by the manufacturer within the agreed calendar year are almost impossible.



Once the REWE Group agreement had been signed by both parties, meetings were then able to be arranged with the buying teams of toom and Karstadt. Information and samples were sent prior to the meeting. In Cologne, the actual meetings were then primarily to discuss promotional plans and location of product on shelf. The toom and Karstadt buyers oriented their RSPs to what was currently being charged to the consumer by REWE.



To list the product in all 98 toom hypermarkets and place also an ad in two weekly sales leaflets in Spring and Autumn, listing fee and promotion were combined as promotional cost (German: Werbekostenzuschuss or WKZ) for the next calendar year. Launching products into toom is due to the much smaller number of outlets and hence turnover potential not as costly as for REWE. An annual budget of € 10-50,000 is a sensible framework to allow for product launch and small ad features.



A listing in 60 Karstadt food halls was not so interesting in terms of turnover to the manufacturer. However, for historical reasons, the food halls of Karstadt have

an extremely high image and attract an upmarket, somewhat elder target customer. Karstadt prints sales leaflets that are valid for 3 weeks. To list the product in all food halls and run ads (also pack shots plus price and description) twice, a budget of approx. € 5-20,000 should be allowed for.

The other remaining fascia of importance within REWE Group is Penny discounter. Even though the turnover potential of a further 2,300 stores was tempting, it was a clear decision not to approach them to enable a premium price level for the products to be kept in the other fascia.

Sales performance and service levels from the manufacturer were monitored closely by the buyers during the first 6 months. Orders were faxed on a regular basis of approx. every 2 weeks.

In preparation for the annual review meetings prior to Year 2, it was recommended to the manufacturer to develop an off-shelf display with or without backing card and holding approx. 50 packs. The number of packs was not too high in order to make ordering possible also for smaller stores as REWE supermarkets cover a wide spectrum of sales area. This promotion was to be run in tandem with the sales promotion leaflet and reduced price.

The manufacturer developed an off-shelf display layout and had them produced and packed locally. As off-shelf displays are to be provided on ¼ Chep pallets to retail, the manufacturer had to register with Chep. In addition, a new EAN number was needed and all details about this new SKU had to be registered at REWE.

## Results

The manufacturers' products were within 8 months listed centrally, i.e. with REWE Group, in the fascia REWE, toom and Karstadt with promotional support in place.

Next steps will include a contact to REWE Group's partner Dohle (Hit) adding another 89 hypermarkets to the total. In addition, on a more long term basis, contact will be made with the extremely successful REWE subsidiary REWE Austria (Billa, Merkur) with a view to an Austrian launch. REWE Austria is the No. 1 retailer in Austria.