

KESKO CMD 2018

# Profitable Growth in All Channels in Grocery Trade

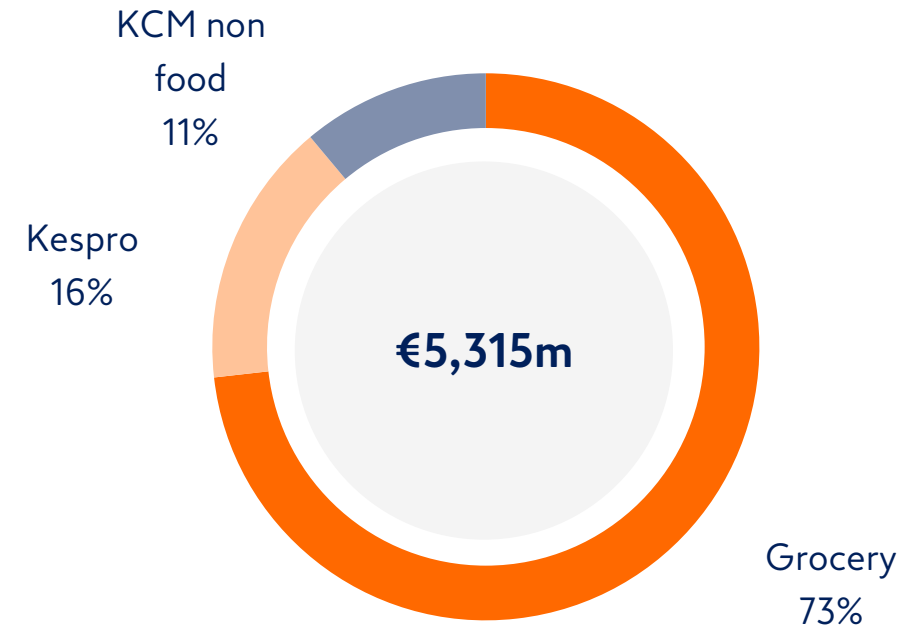
Ari Akseli, President, Grocery Trade  
Anni Ronkainen, CDO

# Grocery Trade Business in Brief

- One of the most profitable players in Europe
- The quality leader in the Finnish grocery trade and foodservice market
  - K Group number 2 in Finnish grocery retailing
  - Kespro number 1 in Finnish foodservice market
  - Rapidly expanding online food store network
- K Group's market share at its highest in over 15 years (~37.0%)
- 1.2 million customer visits per day
- Over 1,200 stores in the retailer business model

## Net sales

Rolling 12 months Q1/18



# Successful Strategy Execution



**Growth and profitability** >

	2015	2017
Market share	32.7%	37.0%
Operating profit	€177m	€203m



**Brand and store redesigns** >

All chain brands redesigned  
800 out of 1,200 stores modernised



**Developing the retailer business model** >

557 stores and 220 retailers in the multi-store model



**Customer and quality** >

Daily customer flow increased from 900,000 to >1.1m  
Implementation of store-specific business ideas  
New customer feedback system: >1m contacts annually  
New eCommerce and K-Ruoka mobile app with >500,000 users

# Success Stories in Strategy Execution



K-retailer entrepreneurship and store-specific business ideas



Neighbourhood market store remodelling



K-Citymarket's market share

**PÍRKKA**

Own brand products



Rebranding and store modernisations



Foodservice business



New mobile services and grocery eCommerce

# K-retailer Entrepreneurship Makes Every K-store Different



Every K-store is different,  
tailored to local customer demand

**Store-specific business idea**  
= the store's competitive advantage  
The store's own vision guiding the way

**The chain's competitive advantages**  
Store-specific business ideas acknowledge  
the chain strategy

**Fundamentals in order**  
= **Competitiveness**  
Commitment to chain selection and pricing



# Nearly 60% Share of the Neighbourhood Market

- Strong sales growth in the neighbourhood market
- Comprehensive redesign of the store network
- Acquisition of Suomen Lähikauppa a true success story
  - Total investment approximately €120m
  - 400 new K-Markets, additional sales of almost €700m
  - Sales growth approximately 15%
  - Synergies set to be achieved ahead of schedule
  - All stores transferred to retailers by the end of June 2018



# K-Citymarket Gaining Market Share

- Comprehensive hypermarket concept redesign
- 56 store redesigns completed, all stores by the end of 2018
- Continuous development of fresh food departments
- Good development also in non-food product categories
  - Category optimisation
  - Increased share of private brands (Hemtex, mywear)
  - Remodelling of cosmetics departments
- The existing store network is optimal and competitive





# Differentiation and Improved Profitability Through Own Brand Products

- Currently 2,800 own brand products
- More than 500 suppliers in over 30 countries
- The aim is to increase the share of sales of own brands from 19% to 21%



PÍRKKA



PÍRKKA *Parhaat*





# Rebranding and Store Modernisation Continues

Effective implementation of store-specific business ideas – Every K is different

Focusing on store network development in growth centres

## CITYMARKET

Sales €2.1bn  
Comprehensive concept renewal  
**56** out of 81 store redesigns completed  
Current store network optimal and competitive

## Supermarket

Sales €1.8bn  
Rebranding, **128** out of 241 stores renewed  
Store network expansion profitably

## Market

Sales €2.0bn  
Modernisation, over **700** out of 800 stores made over  
Store network expansion profitably

## NESTE

Sales €0.1bn  
Further developing the service station concept  
**57** out of 70 stations redesigned  
Future network of 85 service stations

# Developing the Foodservice Business

## Market trends



Total foodservice wholesale market continuing strong growth



Fragmented customer segments



Eating out & take away are growing

## Kespro today



### Key figures

- Net sales €827m\*
- Market leader
- High customer satisfaction



### Customers

- Private horeca customers
- Chain customers
- Public sector
- Resale customers
- K-food stores

\*Rolling 12 months Q1/18



# Continuing Profitable Growth Strategy



# Grocery Trade Market Overview



Continuing total market growth



Consumers' growing purchasing power



Growing demand for convenience



Eating out & take away are growing



Tight price competition as the new normal



Consumers shifting focus to premium



Growth in eCommerce



New business opportunities may emerge: liberalisation of pharmaceutical markets and alcohol legislation

# Strategic Direction to Continue Profitable Growth



Most customer-oriented and inspiring food stores



Developing and modernising the store network



Offering a seamless omni-channel customer experience



Developing retailer entrepreneurship as a competitive advantage



Expanding the foodservice business

# Most Customer-oriented and Inspiring Food Stores



Future value creating actions

- Wide implementation of store-specific business ideas
- The use of data to improve personalised customer experience
- Continuous concept development based on future trends and research
- Competitively priced high volume products supplemented by value-adding store-specific products





# Developing and Modernising the Store Network

Future value creating actions

- Maintaining and expanding the network profitably
- Focusing on growth centers
- More often Kesko owns the strategic store locations



# Offering a Seamless Omni-channel Customer Experience



Future value creating actions

- Extending the network of online grocery to cover 75% and K Transport deliveries to cover 50% of households
- Strengthening of capabilities and utilisation of data analytics (AI) and service design

TILAA TÄNÄÄN  
**K-Ruoka**  
VERKKOKAUPASTA

k-ruoka.fi/kauppa  
K-Ruoka-sovellus

# Developing Retailer Entrepreneurship as a Competitive Advantage

Future value creating actions

- Over 600 stores operating in the multi-store model by the end of 2018
- Expansion of the store-specific business ideas
- Quality enhancement measures to continue





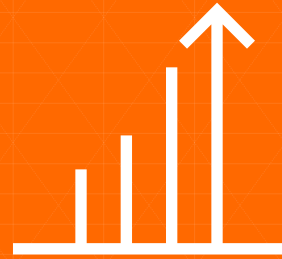
# Expanding the Foodservice Business



Future value creating actions

- Developing own brands
- Sales increase in fresh product categories
- Acquiring new customers
- Complementary acquisitions: Reinin Liha and Kalatukku E. Eriksson as examples





**One of the Most Profitable  
Retailers in Europe**





# Seamless Customer Experience in All Channels and Devices

Anni Ronkainen, CDO



# The Power of Consumers, Data and Mobile is Changing the Business



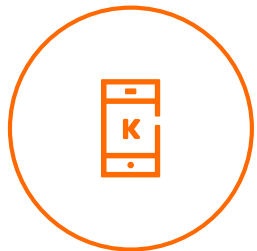
Increased **consumer knowledge and power, individuality**



**Data and AI** will change businesses significantly



A positive **customer experience** is crucial in every touch point



**Mobility** – customers are always online



**Globalisation** changes customer expectation and the competitive landscape



**Marketing technologies** are changing more rapidly than organisations

# A Multichannel Customer Is a More Valuable Customer



**The same customers use both traditional and digital services and these need to be seamlessly integrated**

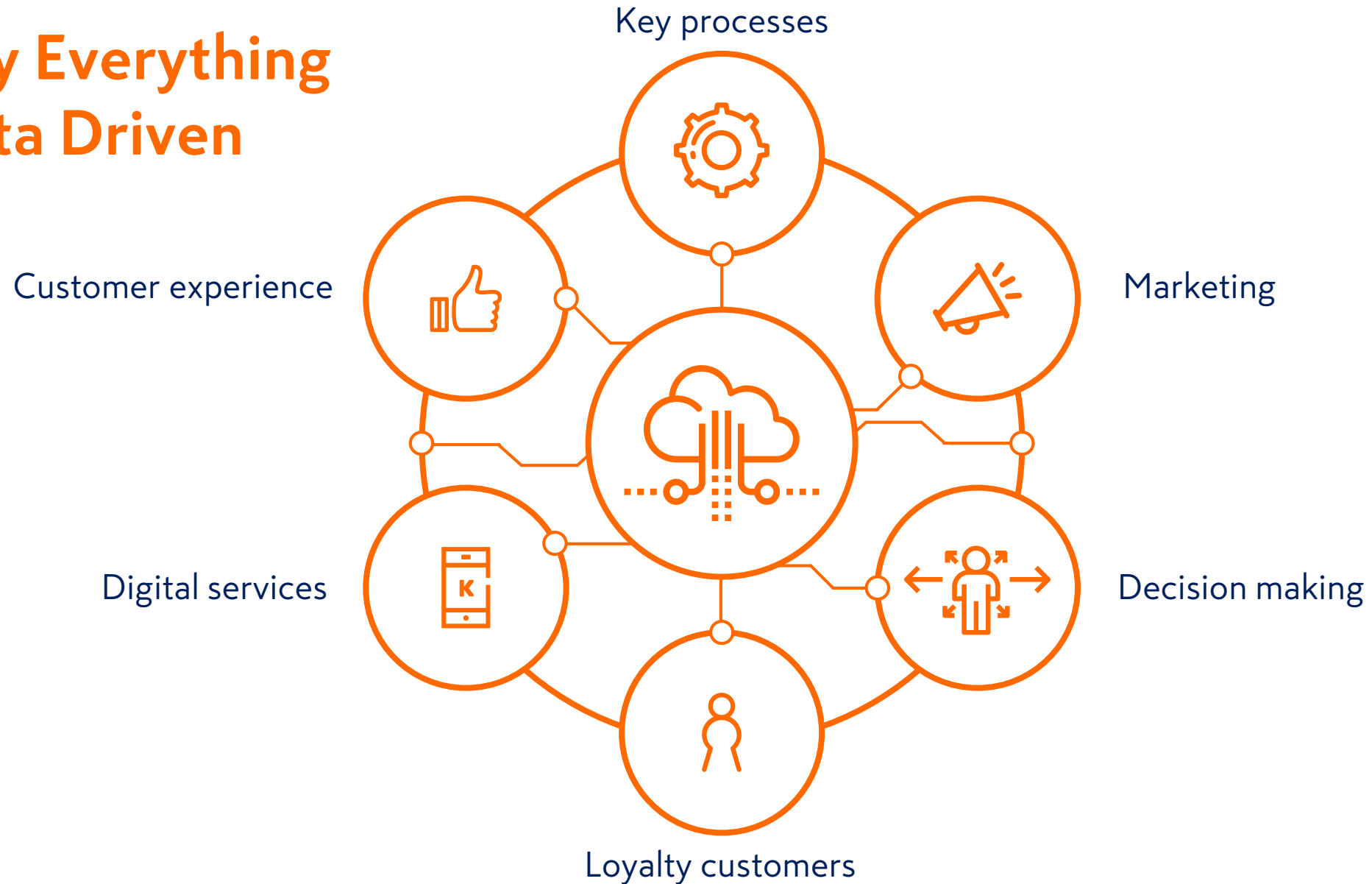


**Customer driven digital services generate sales and customer loyalty by making shopping easier regardless of device, time or place**



**In the future, the player who successfully connects human encounters in the stores with advanced digital services will prevail**

# Today Everything is Data Driven





# K-AI Helps in Decision Making and Inspires Customers

## K-AI improves key processes

- Assortment planning
- Pricing optimisation
- HR processes
- Logistics
- Marketing
- Risk management



## K-AI enables clear customer benefits

- Personalised marketing
- Personalised suggestions
- Personalised search in web services

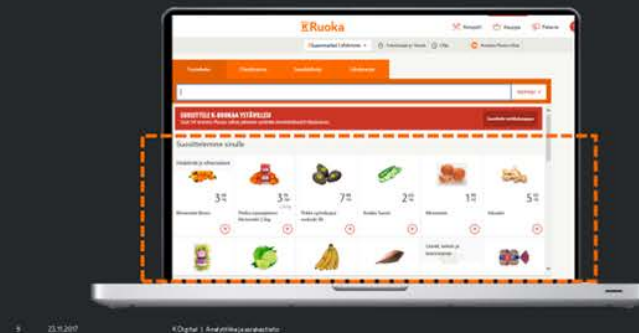
Improved customer experience in every touch point during the customer's shopping journey

# With the Help of K-AI We Create a More Personalised Customer Experience

## KAI ► PERSONALISED BENEFITS



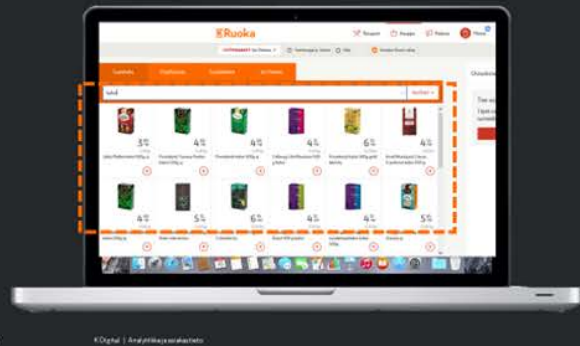
## KAI ► PERSONALISED SUGGESTIONS



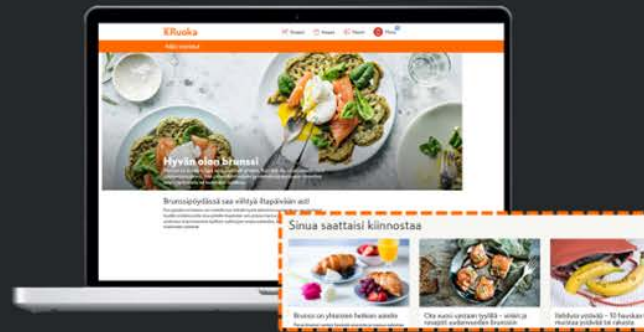
## KAI ► OWN RECIPES



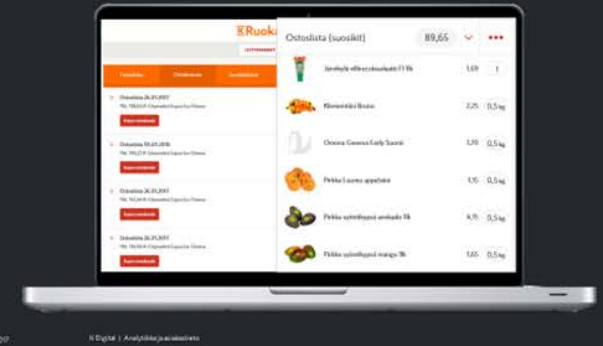
## KAI ► PERSONALISED SEARCH



## KAI ► RELEVANT CONTENT



## KAI ► OWN BUYING HISTORY AND FAVORITES



# Rapid Growth in Online Grocery



Online grocery grew by 30% in 2017, current growth 60% yoy



Approx. 130 K-food stores currently offering online grocery



Average purchase 5x higher than in a physical store



Reaching 3m Finns

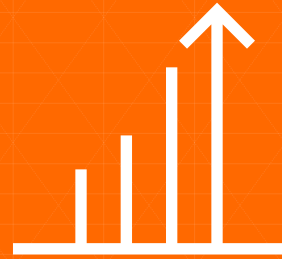


Increasing loyalty and sales to K-food stores



In biggest cities: K-Citymarket's selection of over 20,000 products available online  
Efficient deliveries with K Transport





**One of the Most Profitable  
Retailers in Europe – Serving Customers  
Seamlessly in All Channels**