



Ahold's Big Play

**U.S. COO James McCann's ambitious vision:
Go from 'good' to 'great'**

JAMES MCCANN DOESN'T MIND SHARING the details of his strategic plan for Ahold's U.S. stores, but he'd prefer not to divulge its code name. "It sounds too impactful," he confessed. The chief operating officer of Ahold USA is trying

very hard to be modest amid ambitions that are anything but. His goal is to turn Ahold from what he considers today to be a "solid" retailer into a "truly great" one, and his comprehensive plan for doing so is only now starting to take root at the company's stores.



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U.S. COO James McCann's ambitious vision: Go from 'good' to 'great'

by Jon Springer

Around Ahold, it's known as — Shhh! — Project Thunder.

In his first press interview since taking the head U.S. role at the \$26 billion retailer in early 2013, McCann addressed his vision with a similar combination of humility and bold determination. He believes Ahold's stores — Stop & Shop, Giant-Carlisle and Gi-

ant-Landover — are good but need to be better, and are only now beginning to get there as a first wave of customer-centric investments roll through its 767 stores and employees begin to participate in a corporate framework for growth. This round of investments — focused primarily on selection and pricing in produce — will be followed

by successive waves in the months and years ahead, McCann said.

"Three of the four divisions are market share leaders. We have got a really good position in our markets. Our divisions run very good stores. We're about as solid as the retail business gets," McCann said. "But what is it we want to do going forward? Where do we want to be

by the end of the decade? With the utmost humility, because we don't say this lightly, we have set out a plan to become one of that small group of great U.S. retailers."

The British-born McCann, who is 44, brings an international perspective to Ahold's U.S. operations. He began his career with Shell Oil, then joined the confectionery business of Mars both in the U.K. market and in Russia. That experience paved a path to retail, particularly when European food retailers eyed executives who could help them expand internationally. "Anyone who had a CPG background and international experience became quite interesting [to retail recruiters]," McCann said. "Quite a few folks came across from the CPG world into retailer during the '90s in the U.K., many of whom are now in the leading retail businesses."

McCann was briefly in the employ of Sainsbury's then joined Tesco, helping its expansion in Poland, Malaysia, Hungary and the U.K. After brief service with Carrefour in France, McCann joined Ahold in its Dutch headquarters in 2011 as chief commercial and development officer, playing a key role in developing Ahold's digital strategy, and assisting CEO Dick Boer with formulation of Boer's overarching stra-



A cooking instructor at a Giant store uses PRIVATE BRAND PRODUCTS during a demonstration.



100 YEARS OF STOP & SHOP

The company known today as Stop & Shop traces its origins to the Economy Grocery Store, opened by the Rabinovitz family in Somerville, Mass., 100 years ago this September.

The chain has been renamed, revamped and reinvented multiple times since then, so Stop & Shop is celebrating the birthday with a theme of "Fresh Ideas for 100 Years."

"The founders of this company first and foremost were about innovation," Joe Kelley, president of Stop & Shop's New England division, said in an interview with SN. "We were the first self-service grocery chain [in New England], and innovated in customer service on the sales floor. From where I sit, those were fresh ideas."

"We think [fresh ideas] is about our promises — being a better place to shop, a better place to work and a better neighbor," Kelley continued. "To remain responsive and relevant in the community, we need to find ways to make the customer's shopping experience easier, whether that's improving in the store, or offering delivery through Peapod, or at one of the 70 pick-up points throughout New England."



Today, Kelley said, Stop & Shop remains committed to new ideas, evidenced most recently at six stores near its Quincy, Mass., headquarters known internally as the "Digital District" — described by Kelley as laboratories where new ideas are tested. Among those is a technology called "Happy or Not" allowing customers to quickly register their satisfaction with various store aspects— for example, checkout speed or produce selection — while they are still in the store.

Another initiative launched there provides iPads for workers in the produce department allowing them to receive notes and emails from Ahold or provide research for shoppers while on the selling floor. Not all the initiatives will work, Kelley acknowledged, but he said it's important for the organization to continually try them.

"Being nimble to me means we can't be afraid to make mistakes. We need to move quick. We can't be afraid to fail fast. What I tell my team is that we need to try things, and try them often," Kelley said.

"Being nimble is about moving quickly, making mistakes, learning from mistakes, and moving on, and at the same time learning from the successes and expanding them," he added. "Independents tend to do that really well, but I think Ahold USA and Stop & Shop in particular has done a much better job of that in the last few years."

Stop & Shop's 100th anniversary celebration includes a campaign called "100 days of giving" where the organization is providing a \$1,000 grant to 100 different charitable organizations on 100 days between Memorial Day and Labor Day. This reinforces Stop & Shop's ties to its community, Kelley said. "We trade here, so we need to be responsible to communities that we trade in. That's a long-standing attribute of Stop & Shop."

In stores, Stop & Shop is providing select products in historical, retro designs featuring the old "bowtie" logo; special offerings inspired by its history in the floral, deli and bakery departments; and reusable bags bearing the 100th anniversary logo and design.

Unlike the organically grown New England counterpart, the New York Metro division of Stop & Shop was pieced together through a series of acquisitions — some made by Stop & Shop as it expanded, others by Ahold. Those companies combined in 2006, and after converting acquired stores to the Stop & Shop banner, established a separate operating division for them in 2009.

—J.S.



A "Project Thunder" Stop & Shop store features **EVERYDAY LOW PRICES** and expanded local selections in produce. The store also features private brands in its meal solutions case.

tegic plan, known as Reshaping Retail.

Reshaping Retail is a comprehensive framework for evolving Ahold's global retail profile behind efforts to broaden its offering, expand geographic reach and improve customer loyalty, supported by cost reductions and a commitment to communities and employees.

In the U.S., its effect in stores — the aforementioned Project Thunder — is rolling in waves on the heels of cost-saving initiatives in a manner not unlike Kroger undertook as it invested savings into pricing and service initiatives on the way to taking its business to new levels of success. Like Kroger — and not coincidentally, McCann's former employer, Tesco — Ahold is using data gleaned from customer loyalty

cards to help guide its decisions, although Ahold uses Symphony EYC to provide that while the other two employees Dunnhumby.

McCann was in the process of implementing portions of Reshaping Retail at Ahold's stores in the Netherlands when Boer appointed him to succeed U.S. COO Carl Schlicker when Schlicker retired in early 2013.

CORNER OFFICE TRANSITION

McCann spent several months in the U.S. working in stores and warehouses before reporting to headquarters in Carlisle, Pa. He said he was aware of succeeding "a massive presence" in Schlicker — who at well over 6 feet tall and possessing an outgoing, extrovert-

ed personality — literally towered over the company. McCann by his own admission tends to be quieter and more reserved.

"In the retail business you have to be careful with the transition. What Carl and I were very clear about was that we didn't want there ever to be confusion about who was running the business. So on the 1st of February [2013] he moved out of his office and I moved into it and that was the transition."

Schlicker had begun the process of cost reductions to begin implementing Reshaping Retail in the U.S., but according to McCann graciously held back on investments so as to allow his successor the opportunity to take ownership of the initiative.

"In our transition, Carl stated openly that the person coming in behind him had to figure out what their plan was and put that in place," McCann said. "So over February, March, April, May last year my team and I worked very hard to say, 'OK, where do we want to take the business?'"

Customer data and research pointed to an obvious place to start.

"[We asked] if we had X dollars to spend, where would our customers want us to spend? When the divisions asked our customers, they said, 'We would like you to improve your prices. Some of your prices are too high and we would like you to reduce them.' So across the meat, deli, seafood and most heavily in the produce department, we reinvested to improve the customer experience and are making some pretty significant price investments."

The program — known internally as the first phase of Project Thunder — involves investing savings into reduced everyday retails in the produce department combined with an effort to revamp selections and improve product specifications so as to better reflect preferences in each store, backed by extensive employee training. Officials say the effort reflects a desire to be "famous for produce."



For a transcript of SN's interview with James McCann, go to <http://bit.ly/McCannQandA>



Former Save-A-Lot executive **TOM LENKEVICH** has joined McCann's team as president of Ahold's Giant-Carlisle division.

"Obviously, produce is very important to the consumer. It's the gateway to our store — in 90-plus percent of our physical stores, produce is the first department that folks see, and it's the No. 1 perishable department when customers make decisions about where to shop," Mark McGowan, Ahold USA's EVP of merchandising, told *SN*.

"We believe in order to become famous for produce we have to do it better than our competitive set. And when we're done, I don't think our offer will look like anyone else's. It will be a combination of making sure we have the right product at its freshest offer, at a really good value," McGowan added. "In addition, we want our associates to get it to our customers in a very engaging way."

The initiatives began at a single store last April and has since been expanded to all divisions including what McCann described as a big industrial test in Stop & Shop's New York Metro division. When *SN* met with McCann in June, 322 of Ahold's 767 U.S. stores had adopted the program, with plans to complete rollout to all stores by early next year.

Through June, stores in the program were seeing positive results, McCann said, although volumes were growing faster than dollars as it ramps up. That, however, is expected. The real payoff will come as additional phases are implemented, McCann said.

"The results we are getting are in line with what we'd hoped. And once we are in the third, fourth, fifth phase of this, the savings from phases one, two, and three will be blowing you along," McCann explained. "The first two phases of it deflate your sales. You compress your margins to improve the customer proposition but you don't have the sales lift because you're just starting. We are right to that point now when we are starting to see our volume market share be significantly different in a positive sense from the dollar market share."

The effort is being paid for with some \$250 million in cost savings, the first phase of which was derived from

store scheduling adjustments. McCann insists that the success of the program will result in more hours coming back to the store than the productivity initiatives sacrificed.

"It is the volumes, the transactions and the items that drive the number of hours in the store. So the divisions have tried to help store teams understand that the reinvestment brings back more hours than have been taken out through cost savings," McCann said. "It so important for the team to understand why you are doing it and where it leads."

Ahold is currently rolling out a second wave of cost savings initiatives to fund a second round of investments, while testing a third wave, and formulating plans for a fourth.

"You have to make both those [savings and investment] wheels turn at the same pace, so you balance the business equation but constantly reinvest it back to the customer," McCann said. "We are going to make wave after wave of customer investments preceded by wave after wave of productivity savings."

Savings, he said, could be found anywhere.

“ Obviously, produce is very important to the consumer. It's the gateway to our store. ”

—MARK MCGOWAN
Ahold USA



A Hagerstown, Md., Martin's store testing a **NEW LOOK FOR PRODUCE** typifies Ahold's spirit of innovation.

“It can be change in the store; it can be changes in the DC operations, transport, the way the divisions are structured, savings in the head office structure,” he said. “Under our business model we have developed a currency that says that every time we save a certain amount of money, that’s one more store where we can make the investment to implement the first phase of the program. So we make the clear linkage that every dollar we save, we are reinvesting back in. And then everyone can understand where the money is going and it makes it much easier for people to want to find the savings and then to implement them.”

‘PLUS-ONE’ AND ‘L-4s’

While Ahold is relying on its scale to help achieve its goals, McCann said he has been careful to be certain employees are along for the ride. This is being achieved through programs designed to foster a bottom-up approach to improving operations and restructuring teams to encourage experimentation and creativity. And that’s where the impactful “Project Thunder” name matters.

“In retail, historically you’d have a very gifted, often charismatic leader of a business write down 16 things on a piece of paper and then everyone went out and did that. And because they were very good retailers, that could work,” McCann said. “That’s no longer going to work for us. We are a big organization so we need to empower the divisions and teams in the stores because they know best how to achieve our objectives. And that’s a great benefit because it gives us \$26 billion worth of scale. And in order to be able to play this game with the Krogers and the Walmarts of the world, we require that heft and that scale.

“The great risk of scale is that you become very bureaucratic if you are not careful, and the stores are suddenly one or two layers of management away from where they used to be. The focus and support of the stores can get diluted, and that’s a real risk in the retail business you have to make sure to avoid.”

To address that, Ahold has empowered merchandisers at its divisions to act as general managers for their departments, provided with the freedom and budget to test ideas in stores without running it up the chain of command for approval.

“We call the teams that do this ‘L4’s’ because they are four levels below the executive teams, where we think the real value creation occurs,” McCann said. “And that’s important, because when everything has to come up to the executive board that I chair, it’s too long, it’s too slow and you can’t process change fast enough.”

Ahold is further supporting those initiatives through creation of a “mock-store” merchandising center near its Carlisle headquarters where teams can stage and test new layouts and looks, and host suppliers and customer focus groups for feedback. A group of Stop & Shop stores is providing a similar proving ground known as the “Digital District” (see related story on page 22). “This center is our new lab,” McGowan said. “It allows us to bring in fixtures, lighting, cases and products. It provides a great tool for us and our suppliers to develop and test ideas before introducing them in a store.”

LOOK! NO HANDS!

James McCann looks at computing as a series of interface changes, leading directly to a revolution in grocery shopping.

“At the moment, this generation of devices uses a touch interface with the finger,” the chief operating officer of Ahold USA explained. “The one before that was a mouse, the one before that was a keyboard, the one before that was a punch card, the one before that was a telegraph tapper. The next big interface change is going to be the wearable devices where people communicate with either voice or eye movement and blink.”

McCann, whose prior role at Ahold involved mapping the company’s digital future, is acutely aware of the power of hands-free mobile computing. Ahold USA in fact tried speeding up the process by testing shopping carts with mobile phone holders. Although that test didn’t work out — children were playing with and dropping the



phones, and it introduced the potential that phones could be stolen — McCann is bullish on the possibilities. The company is in the process of making WiFi available at all of its U.S. stores, he noted.

“A big transition will happen in grocery when the device goes hands free,” he said. “The fourth most-quoted reason for being able to use Google Glass was to find a product in the grocery store. That was a shocking number to us. You only have to stand [on the sales floor] with a nametag for 10 minutes and a line

of customers will form to ask you where products are or sometimes about prices on the products. So there is a great need for information during shopping to achieve that.”

With partnerships on both sides of the ocean, Ahold has been building digital expertise for some time. Its U.S. e-commerce division, Peapod, is leading that effort through various initiatives enabling the shopper to shop how they want and using technology to marry its physical and virtual shopping options.

“What we have set out to do is allow the customer to shop and get groceries wherever, whenever and however they want, while enhancing their product selection process with sorting and filtering capabilities and personalized data,” Andrew Parkinson, president of Peapod, told *SN* in a recent interview. “Our goal is to provide customers with as frictionless an environment as possible. Customers can get their groceries delivered to them, pick them up, or shop in the store making it really convenient regardless of how customers choose to shop.”

With a mature — and profitable — home delivery business, Ahold more recently has been investing in building pick-up sites at stores enabling a cheaper — and often, more convenient — online shopping option, Parkinson noted. Younger consumers have also embraced the pick-up model, he added.

Last month, Peapod opened a new warehouse facility in Jersey City, N.J., to serve the greater New York market, with an eye on tripling the size of its business there in coming years, Parkinson said. In Chicago, Peapod has established a new downtown technology center that is helping the company better compete for talented programmers, and the fruits of their labor can be seen in a new “best-in-class” mobile application that better reflects the capability to shop by attributes such as value or gluten-free.

—J.S.

A new coffee fixture developed with Keurig Green Mountain, now rolling out to stores, was developed in this lab, McGowan said.

A coaching framework known as “Plus-One” in the meantime is providing Ahold’s stores with a means of following through on its promise of improving every day. The practice encourages managers to hear from their staff suggestions to improve their areas, based upon the notion of improving by 1 step on a scale of 10.

“How do you take the ambition to be better every day and actually make it happen every day and in every department, every store? That is a challenge,” McCann said. “So if you are a 7 you are good. How do you become very good? If you are in real trouble, then how do you get out of trouble? What is the next stage in the journey?”

Managers under this practice are encouraged to solicit suggestions from staff, and not to give orders.

“This is not the boss saying, ‘Here are 15 next steps that you are going to go and do,’” McCann explained. “What it does is empower the department leader, or the store manager, or the district director and it’s their plan. That is probably the key set of words: It is their plan. It is not their boss’s plan to give to them; it’s two associates having

ue lines allowing customers options at any budget.

“Maybe 15 years ago none of us quite believed that private label had a big role to play in the U.S. market. It was a very brand-oriented market. Today that’s clearly no longer the case. As a team we decided in February-March last year that this is the moment we can actually become truly famous for our own brand,” he said. “Our private label obviously has advantages in terms of making [better] margins. It also enables you to innovate quicker, and puts you in control of your own destiny.

“But the single biggest advantage of private label is it is exclusively available in your stores. So it becomes a real draw to the store and I think you can see that U.S. retailers are really beginning to understand that.”

Ahold is increasingly putting its Nature’s Promise and Simply Enjoy labels onto items that are less directly competitive with existing brands — and traditionally overlooked by private brands altogether: Artisan baked goods, Italian-style sparkling sodas, meal solutions, fresh items. Juan de Paoli, a Topco and H-E-B veteran named SVP of own brands for Ahold USA a year ago, is leading that effort and has been “massively inspirational,” McCann said.

“We are going to make wave after wave of customer investments preceded by wave after wave of productivity savings.”

—JAMES McCANN
Ahold USA

a conversation on how they are going to become better every day. And that process is really lighting a fire in the stores.”

ALMOST FAMOUS

Another key point of focus under McCann’s watch at Ahold is private label, where the natural/organic Nature’s Promise line and upscale Simply Enjoy brands are driving new sales and differentiation for Ahold’s stores. Stores also provide the “wedge” national brand equivalent and Guaranteed Val-

“We will not become famous for private label by taking out a manufacturer’s dog food and replacing it with our dog food,” McCann said. “By all means, we need to have a very good dog food product. The dog needs to like to eat it, it needs to be nutritious, and we need to offer it at a good price. But where you are really going to differentiate is in the innovation, in fresh products and in chilled products and frozen products.

“[Differentiation] is going to come from providing solutions to customers. It is going to be in merging together



Ahold has made an effort to get **EMPLOYEES TO BUY IN** to the changes at its stores.

products so you provide a meal solution, ideally at a price that is really attractive. It is that innovation that is going to be the driver that makes us famous for private label.”

While Nature’s Promise has positioned Ahold’s stores in the right place to take advantage of the growth in natural and organic, McCann said he believes Ahold could still grow faster in that area. Ahold has an “L-4” team with an eye on emerging trends and categories, and stores are being redesigned with growth of the categories in mind.

“We moved the Nature’s Promise Marketplace [section] from the back to the front of the store, and in most of our stores you are now going to see it in aisles one and two; you are going to see it breaking to the left of produce, and it just keeps getting bigger,” McCann said. “The challenge comes at what point do you integrate the product back into the store? We have some stores where we are going to test putting natural and organic frozen products into the main frozen department because the natural and organic frozen section is bigger than the other frozen.”

'PLAY OUR OWN GAME'

While one of the pillars of the Reshaping Retail strategy is expansion, Ahold has largely played it cool on the merger front, seeming to prefer smaller, in-market acquisitions or contig-

“This is not the boss saying, ‘Here are 15 next steps that you are going to go and do.’”

—JAMES McCANN
Ahold USA

uous bolt-ons that can be folded into existing infrastructure than forays into new geographies or formats. But that could change, McCann said.

Following SN's interview, Ahold acknowledged it had set up a new formats division under EVP Bhavdeep Singh and acquired Eastside Marketplace, an upscale Providence, R.I., market that the company would operate under its current name and format, evidently as a means to learn from it.

Ahold keeps a watchful eye on opportunities whether it winds up as buyers or not, as was the case when Kroger came away with Harris Teeter. Some analysts had expected Ahold could have emerged with that chain. Potential antitrust issues — and the price — were concerns, McCann said.

“We're always looking at whoever is selling, and will continue to be,” McCann said. “I think [Harris Teeter] is a good business and I expect Kroger to make it even better.



Ahold's merchandisers **ACT AS GENERAL MANAGERS** for their departments, with budgets to pursue new ideas without approval from their bosses.

“I believe that we have strong competitors in each of our businesses up and down the East Coast and we need to be both ready for and ahead of those competitors,” he added. “We are not solely aspiring to be a little bit better than the other guys, what we are aiming to do is play our own game and become one of the great U.S. retailers. I honestly believe that is within our grasp. And if we focus on it and pull as a team, then by the end of this decade — we are not saying the week after next — [we] will have moved our customer proposition into a place where we become a deterrent to [others] making an investment because we are such a good retailer.”

And while McCann acknowledged Ahold has been a beneficiary of some competitors that have underinvested in their business, that in itself is not a strategy.

“We cannot afford to match the middle and lose to the strong; that is not a winning proposition,” he said. “As the weaker companies disappear or are acquired, that becomes a losing proposition. So that is absolutely not what we can continue to do. What we are going to do is to become one of the strongest, and we will be taking share from everybody. I don't want to be relying on someone else's weakness for our share gains.” **SN**