

## WORLD TELEVISION

Heineken

What's Brewing Seminar - Western Europe  
12th November 2014

**Wiggert Deelen, Senior Director Regional Supply**

And I will not stand there because that's squeaking. I am the same weight as Alberto so it will squeak as much, I have to stand here. After commerce and finance I'm going to push the envelope a little bit further and talk about supply chain. First a little bit about myself. My name is Wiggert Deelen. Obviously my parents went to great lengths to select my name, but they didn't take into account that 51 years later I was going to meet all of you, so it's a little bit complicated, my apologies for that. I am an aerospace engineer. I went up in beer because of course during your university days you get exposed also to beer and that qualified me for that job. I held operational roles in the Netherlands, in Africa and the last four years I'm in the role in the regional supply chain.

What I want to talk about is basically two things. One, to demonstrate that we have a supply chain in place in the region that can cope with delivering more variety, better service at better gross margins. And secondly, that you understand a little bit more about our network and our footprint, how we managed that, how we leveraged that for its strengths. Those are the two things I would like to talk about in the next 20 minutes.

FX and Ronald have talked about innovation. Consumers demand more variety and that has taken an exponential form in the last few years, and for us in the supply chain that has taken getting used to. For us this is a new normal but it took us of course the realisation that being able to focus on this variety is a new trick that we had to learn. And secondly if we look at our customers, they also are requesting us for better service, having the product on the shelf at the time that the consumer reaches for it is of course in our common interests, especially if I talk to my supply chain colleagues and the customers.

So those things have been added to the cost agenda. Where we were coming from we were looked at of course always as the cost guys and girls, but now we also want to be and we are going to be the growth guys and girls.

To be able to do that we had to work on the mindset in the supply chain. Where we were coming from was quite a siloed organisation with independent operating companies, independent breweries. So we had to take that to the next level, and the next level was first to align the priorities in the supply chain, to apply the discrimination principle that Alexis talked about, to allocate resources in a way that we get the biggest bang for our buck, that we share solutions. And that recipe was the first thing that we did and it's still ongoing, we're still using it, I'll show you a graph later with the effect of that.

And then after that we started to think yeah, but supply chain is not a department. Supply chain is a process in which many departments play a role if we want to optimise it. So we started to work across the functions, working with sales, working with the designers of the new products, working with the key account managers, visiting our customers to be able to get a grip on the demand. Because of course what we saw coming to us was an increase in complexity and we said okay we could be overrun by this if we don't get out there, get out of our breweries, get out of the comfort zone, and get a grip on the demand that is coming to us. And in that way having a grip on demand we can organise a very lean supply chain behind the demand. And we also see

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further scope if we expand that thinking towards working even more with customers and working also with our suppliers, we also see further scope in this approach.

So the things we have been working on basically at the moment they are basically five. One of them is to support the innovation and what is our role. Our role in supporting innovation is to increase the speed and to increase the number of projects and the number of introductions that we can handle. If we look at customer service our idea was okay we're going to out service the competition. We want to be the supplier of choice. In that way we can be the first, we can be considered the first to work on improvements, to work on shelf, to work on the supply chain itself.

And then on the cost agenda I'm going to mention the project of designing products for value, which is a good example of what Alberto talked about of moving from an event driven and standalone approach to cost, to continuous way of making sure the cost doesn't even get into the supply chain. And I'm going to talk about TPM. Ronald touched it quickly, but TPM is our total productive management programme that we introduced in the first breweries in pilot phase ten years ago which is now really the mindset to eradicate all the losses, and mobilising all of the workforce to continuously work on eradicating losses. And what we've been able to add in the last few years is to do that together, to do that between the breweries, across the countries, so that solutions that we find can be replicated very, very quickly. And lastly the way we manage our network, and I will show you the cockpit that I have in my office to oversee this network.

So on innovation, FX talked about the process. This process is very important for the supply chain, to have a stage gate process with decision making, with people taking decisions in a drumbeat, bringing the right information to the table at the right moment so that we can gain time. We do things in parallel instead of doing things sequential. And that has led us to at least 30% faster time to market.

If you look at the variety, we have seen that if I look back a year ago, at the moment we have 32% more SKUs in our network than a year ago. And agility is also a very, very important aspect for us because, as Alexis said, maybe a failure is strategic for innovations, but success is even more strategic. So if we have one which is ramping up very fast we have to be able to follow. So what we do is we think through all SKUs, what does it do if it sells three times the forecast, if it sells five times the forecast, what do we do? And the example we have from the Netherlands where we saw the Radler catching on very quickly in 2013, we were able by putting the scenarios in place which we call the perfect storm, we were able to follow even eight times the forecast and deliver without getting out of stocks in the supply chain.

If we now look at the customers. What we have in common if we talk to supply chain colleagues and the customers of course, the availability on the shelf. When my product or our product is on the shelf, it means that there is a sale for the retailer and there is a sale for us. So that's what we talk about. And what we need to master for that is demand forecasting and planning and communication and collaboration. And earlier this morning we were talking about data, big data, demand forecasting is of course handling a lot of data. So we're also investing in those kind of capabilities to make sure that we

can deliver on that. And I have a small example from Asda. Tracy and Gavin are speaking about their experiences with that. So please play the video.

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**Video played**

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**Wiggert Deelen, Senior Director Regional Supply**

And Tracy said that 2013 Heineken was the first supplier, Heineken UK. These are the numbers from 2014 which we collect from the Advantage Group which track perception of our competencies towards the retailers, and you see that we maintained a good rank. We are in the top five in each and every country. We measure ourselves against FMCG which is - the set of measurement is sometimes a little bit different depending on the weight, but typically you see Coke, Procter & Gamble and Unilever companies in those top fives all around Western Europe.

I missed Portugal here because that was too late in the preparation so it's not in the book, sorry for that. Sorry Ronald.

Laughter

We move to the cost agenda. If you look at consumer value engineering it's something you hear about all the time. If you sit in your plane and you get your sandwich you will find out that somebody has taken out a small piece of cheese because somebody has been doing value engineering. And we used to do the same kind of discussions, where we had endless discussions, can you take one colour out, can we take a little bit of grams out of the carton? And of course we realised that these costs may not be let's say very valuable to the consumers, but once you have them in it's very difficult to get them out. So you have to make sure that it doesn't impact the consumer. Whatever we do in this redesign of our products cannot have an effect on what the consumer thinks of the product.

So now that we are innovating so fast and we're getting all these new SKUs, we've taken it to the next level to make sure that those costs never appear in the supply chain, that we design the product straight away for the value that we have, that the designers understand what type of pricing is allowed if you have a certain cost structure. And the other way round, you can work your way back from the pricing to the features that you put in the product. So we have menus which you can see okay if I am priced at a certain relative price position, it means that into the design of the product I can afford a thin(?) bottle, an embossment and a label like this. That helps a lot and structurally it keeps out the cost out of the supply chain.

If I talk about our continuous improvement just quickly, I think what I'm very proud of is the right graph is the fact that what we did used to do locally in each and every brewery, finding improvements all the time, we've now been able to connect the best experts around the region. And when we saw always a decline and the CAGR is about 3.5%, we see in the last year that we can go much faster by having these people work together.

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We have invested in language skills, we have invested in collaboration tools, but it really works to be able to go faster in our efficiency drives.

And I'll then come to the network, probably what you've been looking at in your binder already. If you look at the dots probably when you think Benelux, what are these guys doing? What do all these breweries and plants mean there in a very dense concentration? The first thing you should realise is that we have a big export role in the region. There is about 1,000 containers a week that leave Rotterdam port going to the USA, going to Asia, going to Africa, and that is all produced in the Netherlands. It is historically grown; the proximity to the port in Rotterdam allows you to get to any place in the world at a very competitive rate, so that's very important for us. But that's the main part of the production in the Netherlands, 70% of what we produce in the Netherlands is exported around the globe.

And then secondly what you have to know is that we have a large number of breweries which are let's say connected, the brand is connected to having the brewery. We have a brewery in Belgium it's called M....., it's 35,000 hectolitres. It's a very attractive brand if you talk about the variety that our consumers are looking for, but it has the same big size of the dot as the 10 million hectolitre brewery in Zoeterwaude. And we have more of those examples. We have in the north in Scotland here we have Caledonian brewery which produces Deuchars, in the Netherlands we have Bruin brewery which is a brand that we position higher and that we use for offering variety to our consumers. So those breweries are also in the network, and they have to be otherwise we do not have a story around the brands. So those breweries have to stay.

And then if you look for instance at Sardinia, we have a brewery in Sardinia which produces the Ichnusa brand, and that brewery has to be there because this is the only brewery on the island. The beer is from the island so it's fully connected with that story, and it's a good profit pool to be in. A brewery in the south of France, in Marseilles, this is an area where we have suppliers close by and where we have a growing consumer, growing consumption because of the climate, because of the relative population growth there. So that brewery is also very important to have it right there. And then if you look at let's say our game is more about connecting the suppliers to the breweries, to the customers, and managing the total delivered cost. That's the way we look at it. So we get the efficiency from the proximity and from the scale at the same time.

Since 2000 we did close or sell 20 breweries, so it's a very actively managed network. It's not that we are sitting still, we are continuously reconsidering what is smart and what is not smart to do.

And then if you look at my dashboard, this is what I see from my control tower in the office, sometimes it gets a bit spaghetti but - these are all the goods flows from a supplier to a production location to a customer. And we have complete visibility to change good flows, to say okay this SKU, that volume is going there, this supplier we allocate to that brewery, and in that way with the optimiser button that we have on this model we can continuously optimise the total delivered cost in the network.

And one thing is very important when you manage that, that is your bottleneck capacity, because you will always have some part in your network that you say okay, I would like

to put a little bit more volume there, but then this piece of equipment has to have a higher output. So that's what I'm monitoring. So we have a critical bottleneck capacity where we always want to get more out of per hour. When we get more out of that per hour it means that we can push more volume there which is immediate savings in transport, both inbound and outbound, and also savings elsewhere where we can reduce demand capacity. So that is the number that you look at if you look at this capacity utilisation. That's the one that I monitor, the bottleneck capacity to get higher output out of that bottleneck capacity.

And what we do is we also manage this network for the future. So we run scenarios for what is happening, going to happen in five years' time, extrapolate that making sure that we invest in those locations that have the future, that are close to suppliers, that are close to consumer bases that are growing. So in that way we manage the footprint as effectively as possible, and for all its strengths that are in there.

So the supply chain that is in place is capable of delivering more variety, at higher service levels, at the same time, at better gross margins. And at the same time our capital requirement is also reducing. We get inventory out of the system and we improve our asset utilisation.

So we have seen a year 2014 where with the supply chain strategy making it fully congruent with the cost for revenue, we've seen that we can actually manage all the indicators at the same time in green, which was quite a step change from the situation we were coming from in 2011 and focusing on our efficiency KPIs in the breweries. This gives us a lot of good feeling.

So I hope that I've been able to bring it across in record time. I still have two minutes but that's maybe for questions or for lunch. So our supply chain can do the variety, it can do the better service levels and it is also improving the gross margin at the same time. And there is a network which at first glance you will think of that is a bit too dense and a bit too big. We are using it to the max and we are, like I said, continuously reconsidering the network, and from a business case point of view at the moment we don't have any obvious candidates to rationalise the network.

We do maintain it all the time and maybe the last point that I would like to mention is that in the UK we have at the moment big projects going on, David will talk about it also this afternoon. We are in-sourcing a lot of volume, volume that we are currently outsourcing which is being produced by third parties. We are reducing this third party contract fee, and we are going to expand the brewery in Manchester to absorb that volume. And also we're investing in bottling capacity in Hereford to support the premiumisation and selling of more bottles in the market, but also again that volume was previously outsourced. So we have continuously also projects going on where we are moving the assets and optimising the assets to get the best out of the network.

That's it.

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**Questions and Answers**

**Andrea Pistacchi, Citigroup**

So it seems that you're moving towards more centralised production planning across Western Europe. To what extent is the production decision still taken at the local level versus the centre? And to what extent is what you're doing in Western Europe integrated for example with Poland, with Eastern Europe within the supply chain?

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**Wiggert Deelen, Senior Director Regional Supply**

To your first question, we do the strategic allocation at the regional level. So planning is always in buckets, it's in windows, you plan more than three months ahead, you take your allocation decisions. If you go within three months you take your decisions about how much manning do I put in place, do we put overtime or do we reduce the manning? And if you get to the weekly buckets then you talk about scheduling which we do locally at brewery level because sometimes the beer is not ready, sometimes the supplier has - you do as much as possible on time in full.

So we have different layers of planning and we do them at different levels. They're where we can add the value. So the strategic allocation, the capex decisions and so on are very much in the centre. And then if you get let's say closer to the time of production we move it to the country and then even to the local level.

And if you look at connection to Eastern Europe, between let's say our network and the Eastern network is a big block, it's called Germany. And to cross the big block is quite a distance. So of course we keep an eye on it and in my model I also have all the capacity which is at the fringes, which is close in terms of distance, and we do have some cross border flows with Austria. So we keep an eye on it, but from the same logic of reducing the total delivered cost.

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**Question**

The Advantage survey rankings where you're scoring much better than you have in the recent past, what does that survey rank? Is it purely just delivery or is it holistic for your business?

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**Wiggert Deelen, Senior Director Regional Supply**

It is holistic for the business. It's, and maybe David can also chip in, it has - of course what I look at first is there are two categories, one is supply chain management and the other one is customer service. Those ones are particularly of course of interest for me. But they also talk about trade marketing; they talk about brand development, so the competencies of your key account managers. So all the dimensions are being ranked.

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**Question**

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What is the reason for the volatility that we've seen in Spain and France the last few years in terms of the rankings? They seem to be all over the place.

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### **Wiggert Deelen, Senior Director Regional Supply**

What we look at is we look at the survey and we try to build on the things that we learn from them. So from too far away I wouldn't be able to answer you now but I will have to look it up. If you don't mind I will come back to that.

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### **Question**

That's fine, thanks.

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### **Wiggert Deelen, Senior Director Regional Supply**

It's a perception survey, yeah, people fill it. It's not a measurement with a dial so.

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### **Andrew Holland, Societe Generale**

Just in relation to your cost saving target, that €80m this year. If I were to look at last year's COGS and let's say they were a billion, would I find that this year they're 820 million, or would I find some other figure as a result of inflation or other factors?

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### **Alberto Toni, Senior Director France**

Definitely you cannot straight link it to the profit and loss because the savings are calculated at a stable volume.

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### **Andrew Holland, Societe Generale**

So ...

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### **Alberto Toni, Senior Director France**

So if you would look in a year where you are growing volume, by definition your cost of goods sold is higher because you have the additional cost of goods sold.

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### **Andrew Holland, Societe Generale**

Sure, okay so let's assume that you had flat volumes, would I see a number that was 80 million lower?

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**Alberto Toni, Senior Director France**

I don't think I -

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**Wiggert Deelen, Senior Director Regional Supply**

Another fact in it which is the product mix. So if you produce kegs or if you produce a bottle in the six pack there is quite a big difference in the variable cost between it.

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**Alberto Toni, Senior Director France**

There are many effects would then give you your product and loss.

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**Alexis Nasard, President Western Europe & Chief Marketing Officer**

At equal volume, at equal mix, at equal RPM you might. But good luck with that.

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**Andrew Holland, Societe Generale**

Yeah, I'm looking forward to the disclosure that enables us to do that.

Laughter

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**Alexis Nasard, President Western Europe & Chief Marketing Officer**

Me too.

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**Andrew Holland, Societe Generale**

Can I also just ask on the issue of out of stocks, which often gets talked about as a problem for the industry, can you say what your out of stocks are? And when you're talking about out of stocks, does that mean for the whole brand or is that, you know, SKUs, if you had three Heineken SKUs and you wanted to have five, does that constitute an out of stock?

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**Wiggert Deelen, Senior Director Regional Supply**

An out of stock is - at the moment the consumer wants to reach out for the pack and the brand that he wants to buy on the shelf or from the fridge in the on-trade, that would constitute an out of stock. So there is hardly any total measurement on it. Some retailers do measure it but not all of them. So for now it's a difficult measurement to grab. Of course we can easily track our out of stocks in our own depots, so the level at which we can provide service, and we call that product availability. And the product availability has gone up, so we have seen in the past year that we have been able to

forecast the demand at a higher level of accuracy, so that we've been putting the right products into the warehouse before ordering.

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**Andrew Holland, Societe Generale**

Okay so that higher level, what are we talking about, 90%, 95%?

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**Wiggert Deelen, Senior Director Regional Supply**

It's in that order, yeah.

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**Andrew Holland, Societe Generale**

Thank you.

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**Marco Gulpers, ING**

Maybe a follow up question on Andrew's question. It's on the target basically of your capacity utilisation. You mentioned it improved about 280 basis points this year. Can you reconcile with us with us what will happen in the coming three years, another 900 basis points of capacity utilisation improvement or even more or have you just started? Thanks.

And maybe if you want to add the absolute level as well thanks.

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**Wiggert Deelen, Senior Director Regional Supply**

Maybe the best way to explain the capacity utilisation in the region is that if I would have five days and 24 hours to produce, I would not have enough capacity. So we use the weekends over quite a part of the year to be able to follow the demand. And then if you look at the utilisation rate, like I said what we monitor most strictly is the bottom line capacity because that allows us to move volume to those places where we have the lowest total delivered cost. So in that sense we will continue - it's difficult to say, we do not disclose these forward projections but you can count on us to keep on working on it very hard.

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**Andreas Pistacchi, Citigroup**

You've been quite specific on the cost saving, the 80, the 20 million, where they've come from in the last year. If you were to think of the next sort of couple of years what areas functionally would you see particularly most of the savings coming from?

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**Alberto Toni, Senior Director France**

I would say the cost for revenue strategy will still be there for the next couple of years, so our areas of focus are still ones that we have identified. And I would say there is a lot of potential there because if you think about for example the centralisation of our procurement spend is not something that's happened ten years ago, it's something that is quite recent. If you think about the maturity of the journey of our shared service centre in Krakow, it has just started. So I think there is a lot of potential of cost savings still in the areas that we have identified.

Then obviously the areas that I showed to you are not the only areas where we are looking for cost savings, obviously we are going across but those will remain the two main focus areas. One because we want to increase margin cost of goods sold it's an invariable part, and logistics are one key element. And the other because as Alexis has said we want to redeploy as much as possible our FTEs in the front line differently from the back office.

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**Question**

Another one on the cost savings. If I remember correctly you reported on the TCM in Western Europe specifically there were, 70, 80 million in cost savings in the last two years. You're presenting a number of 100m, is there a step up in Western Europe in terms of now you're moving to the cost for revenue initiative?

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**Alberto Toni, Senior Director France**

Yeah. I think first of all we have stopped reporting on TCM2 by half year, so this is not a TCM2 number; it is a cost for revenue number. But definitely as I said, we have decided to make it a cornerstone of our strategy. It goes deeply in our organisation now. Even our commercial organisation knows that if we are able for example in design to value, in our marketing, in our innovation fund, if we are able to make sure that we have a gross margin accretion they are able to invest more in for example consumer phasing activity. That is true as well for the cost saving part. So I think that the governance that is continually focusing is helping us in stepping up our cost agenda, knowing that we don't have low hanging fruit like brewery closure at least in the short term.

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**Question**

If I can just squeeze in one more. You say you have reduced your inventories by about 7% but your brand SKUs have gone up by 30% so how have you managed to reduce your inventories?

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**Wiggert Deelen, Senior Director Regional Supply**

Better demand plan. There's better accuracy in the forecasting and better planning of your demand so that you let's say make your supply chain behind it, you make it leaner. To have the right stock, avoid obsolescence and make sure that that right stock is there

at the right time, reduce your batch sizes so that you produce more often in a cycle, in a production cycle, and that way you can reduce your inventories.

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**Alexis Nasard, President Western Europe & Chief Marketing Officer**

One thing if I may add on the cost side, it's a question which is indirectly related to many questions which were asked. I want to give assurance to everybody that we still have a lot of room to go in our cost for revenue agenda. I don't want anybody to leave with the impression that we are close to exhaustion, we are not at all. Under the area of gross margins, in terms of supply chain, consumer value engineering, procurement, wholesale, in the back office, we have plenty of opportunities; we have identified lots of levers to go. So I'm pretty confident that we're going to get the reservoir of savings that we need in the medium and in the long term.

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**George Toulantas, Director of Investor Relations**

Okay. Well thank you Alberto and Wiggert. Thank you.

Applause

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**George Toulantas, Director of Investor Relations**

Okay so we'll break for lunch now. It's going to be in the same place we had the coffee break, in the atrium just to the left. Good opportunity to still sample some of the innovations we have referred to through the day. It's no coincidence there is a bit of a bias towards cider. You've got the Strongbow Dark Fruit which is actually the fast moving consumer goods innovation of the year in 2013, and David is going to talk about that later. We've got Old Mout which is our New Zealand cider brand which we're driving a lot of visibility and penetration in the UK market. You can play with a sub, we've got Radlers, so enjoy. And if I could ask that we're all back here in the room at around quarter to two. Thank you.

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