

# HAGKAUP

## FOR PUBLICATION

Industry sector:

5300

General retailers

Client:

Hagkaup

Design consultancy:

M Worldwide

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# Hagkaup Smaralind: Happy Shopping!

**m**  
Worldwide

# Executive Summary

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Huge supermarkets used to be all about weekly friction free shopping – going in, walking up and down the aisles, and getting out. Customers had to fit in with business imperatives that focused on streamlining, process, and logistics on an industrial scale.

That's all changing. People shop more frequently for fewer items, and want innovative experiences and places in which to dwell. Engaging ideas, compelling content, and shared space with other brands are the things that will keep them coming back.

Icelandic supermarket retailer Hagkaup partnered with M Worldwide to revisit its flagship store proposition, customer experience, and environment to meet customers' new shopping needs and fight off increasing competition. Not only this, but the flagship store footprint was reducing by almost 50% as a result of Hagkaup's business strategy to lower fixed costs but use remaining square meters 'smarter' to maximise the profit of each and every one.

A focus on the theatre of the retail offer by thinking 'less supermarket, more department store' was imperative for Hagkaup's flagship to stand out and ensure customers believe that this retailer offers better value for money than the price-based competition.

Five months post-relaunch, Hagkaup's flagship year on year success is way beyond anyone's expectations. The store now has more customers, more sales per square meter, and more EBIDTA than when it was double the size! And all this has happened against objectives to simply maintain YoY levels.



**+ 180%**

Meteoric +180% increase in EBIDTA per square meter



**+ 53%**

Unbelievable +53% rise in overall EBIDTA



**+ 77%**

Massive +77% increase in sales per square meter



**+ 13%**

Huge +13% more customers



# Project Overview

## Outline of project brief

Icelandic supermarket retailer Hagkaup partnered with M Worldwide to revisit its flagship store proposition, customer experience, and environment to meet customers' new shopping needs and fight off increasing competition. Not only this, but the flagship store footprint was reducing by almost 50% as a result of Hagkaup's business strategy to lower fixed costs and use the remaining square meters 'smarter' to maximise the profit of each and every one.

A focus on the theatre of the retail offer by thinking 'less supermarket, more department store' was imperative for Hagkaup's flagship to stand out. Through the environment, customers must be able to tangibly experience the product variety and exceptional service – to come away feeling that Hagkaup offers better value for money than its competitors, who are mostly led by low price propositions.

Activating Hagkaup's 'Happy Shopping' brand promise in the environment would be critical – it's a positive, compelling retail philosophy designed to encourage greater dwell time and more frequent repeat visits through experience-led content, ideas, products, and events.



Despite the reduction in the store's footprint, this new proposition needed to help Hagkaup Smaralind maintain the following versus the previous year – especially since there would be no other marketing support:

- Levels of customers
- Sales per square meter
- EBITDA per square meter (Earnings before interest, tax, depreciation and amortisation)
- Overall EBITDA

## Project Overview cont.

### Description

Selling both food and non-food, Hagkaup is a much-loved brand in Iceland. It was established in 1959, operating as a mail order business in its early years. Its first store opened in Reykjavik in 1970. Today the retailer has 12 stores across Iceland that range from 700-5,700 square meters in size. Stores offer a wide range of food, clothing, beauty, home furnishings, and leisure products to meet the daily needs of customers.

Hagkaup's flagship store is located in the centre of Reykjavik in Smaralind, Iceland's biggest shopping mall. The store was originally 10,500 sqm, but in 2016, as part of its strategy to reduce fixed costs but increase store revenue, Hagkaup Smaralind's footprint was reduced by almost 50% to 5,700 sqm, including 200 sqm dedicated to a Krispy Kreme concession and factory.

Referred to internally as the 'Feathers Programme', the new proposition includes exclusive Hagkaup offers. These are the things that make it special, that justify higher prices, that are hard to copy, and that elicit the feeling that customers are getting something extra (without any additional operational / labour costs).



# Project Overview cont.

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## Overview of market

In 2015, the year before Hagkaup Smaralind's redesign, Iceland's total grocery market was worth approximately 218,264 million krona, and Hagkaup was the number four food retailer with almost 12% share. The non-food market was worth 66,256 million krona, and Hagkaup's share was 6%. Competitors included: Bonus (38% MS), Kronan (20% MS), and Netto (14%).

Huge supermarkets used to be all about weekly friction free shopping – going in, walking up and down the aisles, and getting out. Customers had to fit in with business imperatives that focused on streamlining, process, and logistics on an industrial scale. That's all changing. People shop more frequently for fewer items, and want innovative experiences and places in which to dwell. Engaging ideas, compelling content, and shared space with other brands are the things that will keep them coming back.

Despite its status as a much-loved brand, by 2016 Hagkaup was facing the threat of increased competition across various fronts:

- Strong growth of discount supermarkets, and the quality of the products they sell
- Costco to enter the Icelandic market with its first store in May 2017
- Launch of three H&M stores in 2017/2018

Hence Hagkaup's strategy to focus on scaling down fixed costs like property to provide higher efficiency on less square meters, and by focusing on areas suited to changing shopping behaviours, such as Speciality Foods, Ready to Eat, Cosmetics, Toys, F&F Fashion Range, and well-timed seasonal offers.

## Project launch date

November 2016

## Size of design budget

Fees: £60,000



# Outline of Design Solution

We analysed the customer journey to define where best to hero moments of theatre, resulting in a newly formatted specialty department store with curated product stories within the smaller footprint.

The buzzing and fashionable Smaralind Mall is the perfect location for this destination concept – a one-stop shop where customers can pick up a healthy evening meal to take home, buy their grocery essentials, try out the latest makeup trends, have a manicure, then finish their trip by indulging in Krispy Kreme doughnuts and an excellent coffee.



Activating Hagkaup's 'Happy Shopping' brand promise in-store means deli counters, a sushi bar, and rotisserie chicken sit alongside beauty offers from trendy Urban Decay and MAC to classic favourites such as Chanel and Lancome – something you simply don't get at competitors.

## 4 Distinct worlds co-exist across the shopping floor:



Express/  
Food for Now



Non-food  
(cosmetics, home,  
affordable fashion,  
beauty, large  
selection of toys)



Food for Later  
(deli, fresh, sushi,  
rotisserie chicken)



Grocery (most  
varied selection  
in the country)

# Outline of Design Solution cont.

Customer journeys are fluid – shoppers can immerse themselves in one world or dip in and out of many. The design language is understated – a neutral shell of clear, simple, honest materials.

Hagkaup's brand colours are used to accent and highlight, whilst wayfinding and graphics are integrated as the ambience for each world.



The opened up shop front has a wide welcoming view from the shopping mall into the store's four worlds: cosmetics alongside coffee and juice bar, in amongst a fresh food market, alongside fashion and gifts. Departments are linked by one main 'avenue' that's flanked by mobile market stall-style tables.

These provide Hagkaup and its brand partners with an endless array of flexible visual merchandising options and seasonal displays. It's like a giant shop window with a strong brand presence directly onto the mall, from which customers can shop.



Bakery department

# Outline of Design Solution cont.

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Special moments of activity in 'hotspots' throughout the customer journey ensure plenty of theatre to surprise and delight: the Krispy Kreme Factory observation window where you can see doughnuts made in true Willie Wonka style, make up events and sampling, beauty promos, a fresh DIY Peanut Butter machine, food tasting, and the Candy Land sweet corner.



At its core, traditional supermarket principles are swapped with the best of department store showrooming to encourage greater dwell time and smaller, more frequent visits.



# Summary of Results

Five months post relaunch, Hagkaup Smaralind's year on year success is way beyond anyone's expectations. Its strategy to focus is on using the square meters 'smarter' to maximise the profit of each and every one is working and the environment has a huge role to play in this.

Hagkaup Smaralind is now almost 50% smaller in footprint but has more customers, more sales per square meter, and more EBIDTA than when the store was double the size! And all this has happened against objectives to simply maintain YoY levels.



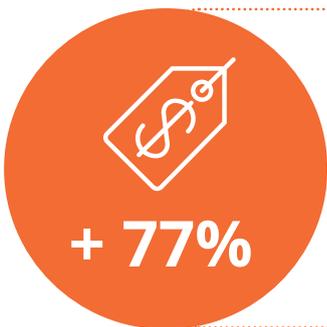
**Meteoric +180% increase in EBIDTA per square meter**

From 5.906/sqm to 16.614/sqm  
(Nov 2015-Mar 2016 vs Nov 2016-Mar 2017)



**Unbelievable +53% rise in overall EBIDTA**

From 62M krona EBIDTA to 95M krona EBIDTA  
(Nov 2015-Mar 2016 vs Nov 2016-Mar 2017)



**Massive +77% increase in sales per square meter**

From 133,000 krona/sqm to 236,000 krona/sqm  
(Nov 2015-Mar 2016 vs Nov 2016-Mar 2017)



**Huge +13% more customers**

From 374,876 customers to 425,323 customers  
(Nov 2015-Mar 2016 vs Nov 2016-Mar 2017)

The Smaralind store has been so successful so quickly that Hagkaup is currently applying this concept to another anchor site store, and we're creating a 'module concept format' for all its other stores.



Comments from customers include:  
"The store looks bigger" and "I feel like I'm abroad".



Grocery hot spot - cooking demonstrations



Krispy Kreme Cafe

## Other Influencing Factors

Aside from the redesign, the biggest influencing factor is quite possibly the reduction in footprint of Hagkaup Smaralind by almost 50%. But given the YoY results, this clearly hasn't affected the retailer.

One could also argue that the introduction of a Krispy Kreme concession and factory might impact on the results, but it's worth noting that the EBITDA results cited in this entry do not include any Krispy Kreme data. So this is not skewing those results in any way.

## Research Resources

Hagkaup internal data, 2015-2017.