MIGROS

a better life every day
Strategy of the Migros Group
FOREWORD

In this slightly revised version of the Migros Group strategy we have allowed for changes in background conditions generally, while at the same time focusing on continuity. Our core direction and paramount objectives for the Migros Group remain unchanged.

We have made minor changes and additions to our values. Responsibility plays a vital part in our sustainable corporate development and is therefore now included as a specific value. For us, it is about our understanding of sustainable development and compliance, and the pledge we have made on these. Our view of sustainable development as a whole is also explained in detail in the glossary.

We firmly believe that digital channels for communication, information and purchasing will continue to grow in importance in the future. The Migros Group is therefore developing innovative cross-channel solutions for its customers. We are reinforcing our conviction by making this a clear objective and part of our concept.

The new version of the Migros Group strategy will continue to serve as a guiding principle for the leadership of our companies. In an ever-changing environment, it will also help us to be successful and to create long-term, sustainable values for our customers, our Cooperative members, society and our employees.

We look forward to continuing, with you, to grow our Migros Group on this basis.

Zürich, 10 July 2012

Andrea Broggini      Herbert Bolliger

The Board of Directors and Executive Board of the FMC
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OUR MISSION

Our Mission is an expression of the benefit pledge that Migros has made as a commitment to its stakeholders. The Mission explains the purpose of everything we do.

Migros is the Swiss company that is passionately committed to improving the quality of life of all of its customers.

As a model employer, we provide our employees with the right conditions for a motivational, performance-oriented working environment that attracts the best workers.

We give our Cooperative members our undertaking to create values that will guarantee the continued existence of Migros as an independent entity for the long term.

With the free market economy and performance-oriented competition as a basis, we aim for direct cooperation with our suppliers. We are constantly improving our products and services, and also set ecological and social standards for working and production conditions.

We promote the free, responsible development of human beings. The Migros Culture Percentage provides a broad section of the population with access to culture and education, and enables people to be part of the cultural, social and economic changes in society.

We take care of the environment and provide pioneering services in this respect.

We are committed to creating sustainable values for our stakeholders by maintaining a healthy balance between the economic, ecological and social dimensions of our business activities.
OUR VISION

Having defined the purpose of Migros with our Mission, our Vision sets the “height of the bar” that we want to jump over.

Migros – a better life every day

Migros is recognised by its customers, employees and among the local public as the leading company for quality of life.

By quality of life we mean all of the essential elements that describe the living conditions within a society and determine the subjective well-being of the individual.

The potential of Migros may be found in particular wherever as many different contributions to individual quality of life as possible are realised, combined and forged together into a composite offering.

By “conscious consumption” as quality of life Migros is adhering to what it stands for: fair cost-effectiveness – value for money that consumers appreciate and trust. To consume “consciously” means striking a balance between quantity and quality, between pleasure and abstention, between individual needs and social responsibility.

“Leading” means that in the long-term view we are committed to achieving the greatest success in improving quality of life. It is something we do especially for our customers, our employees and the society in which we operate commercially. How close we come to attaining this Vision is something we can measure by means of the quality of life index with our Migros Targets Cockpit. There we can see whether we will succeed in “clearing the bar”.

We are firmly convinced that this Vision, oriented to sustainable development, will make us more successful in the long term, even if this might cause our profits to drop in the short term.
OUR VALUES

Our conduct towards the stakeholders referred to in the Mission is based on our Values.

Cooperativeness
Our identity is shaped by the basic cooperative idea. We are tied to the economic, social and cultural philosophy of Gottlieb Duttweiler. In the spirit of these ideas, we create sustainable value added for our Cooperative members, customers, employees, business partners and the population.

In leadership and cooperation, we place particular value on balancing the interests of the regional Cooperatives with the overall interests of the Migros Group.

Solidarity
We are proud of the fact that we are a Swiss company – as well as of our tradition and history.

At the same time, we are receptive to the concept of global diversity.

Oriented to success and performance
For us, being successful means delivering sustainable performance. That means striking a balance between economic, ecological and social demands.

We selectively promote entrepreneurial self-reliance, commitment and performance orientation among our employees. Within the framework of the group strategy, we therefore allow as much freedom as possible for local decision making.

As an employer, we are committed to reliability and fairness.

Trustworthiness
Being trustworthy, for us, means that in our business relationships we think, talk and act honestly, predictably and reliably.

We make ourselves trustworthy by checking, and having others check, that we also deliver what we promise. We maintain an open dialogue, both internally and externally.

Professional passion
Our openness, curiosity and our interests are geared to improving the quality of life of our customers.

We strive for intensive contact with them – analysing their needs is our most important motive force.

We take our inspiration from them and apply all of our professional passion to constantly giving our customers new, positive surprises and keeping them happy with our products and services.

Responsibility
We run our core business in a socially acceptable way that is not wasteful of resources, along the entire value-added chain. Furthermore, thanks to our pioneering work we are creating unique added values for human beings, animals and the environment. We also promote the good health and well-being of the population. Legislation and voluntary Migros standards that go even further form a solid basis for everything we do.
**OUR TARGETS**

We set ourselves Targets oriented to our Mission and Vision.

We want to remain the undisputed market leader in the Swiss retail sector. In other business units we can lay claim to a leading role in the market segment concerned.

We target growth abroad, with the intention of thereby strengthening the existing business units and the Migros Group. We also aim to grow by developing digital business models (cross-channel) and by transforming the traditional locations. For the Migros Group as a whole, we aim for profitable growth.

With our targets, we aim to balance the three dimensions of performance that the Migros Group is oriented to: economic, ecological and social.

Based on these parameters, we define and measure our targets in three categories:
- Targets that we have given as a benefit pledge to our **stakeholders**.
- Targets that we have set ourselves for the **strategic initiatives**.
- Targets that we have agreed with the **business entities**.

These targets form the central instrument of binding performance agreements within the Migros Group. They are brought together in the Migros Targets Cockpit and are subject to regular control discussions.
**OUR CONCEPT**

The Strategic Concept represents the conceptual binding around all the business conducted within the Migros Group. It is an expression of the logical understanding of the Board of Directors, which is responsible for the strategy, and the Executive Board, which is responsible for its implementation, for the business in which Migros as a whole is involved in.

Our business is to improve the quality of life of our customers. All enterprises that are part of the Migros Group have to orient their activities to this integrating guiding principle.

With its consumer and service products, the Migros Group covers the needs of everyday life. In this respect, we gear our offering to all levels of society and their specific needs for quality of life. We are committed to offering the best value for money.

It is an advantage for us that in the Cooperative Retailing strategic business unit (the “Orange M”) large parts of the value-added chain are under our own control. In this sense, within the group we operate industrial and logistics companies as well as retail enterprises.

Our own industry companies fulfil a dual role, here: the development and manufacture of innovative own brands offering solid Swiss quality at reasonable prices, together with sales to third parties in Switzerland and other countries.

Other business units (Commerce, Financial Services and Travel) supplement and enrich our offer to our customers to further improve their quality of life.

Up to now, the geographical heart of our sales area has been Switzerland. From now on, we will endeavour – while maintaining our efforts to create value added – to target possibilities for growth in Switzerland and in other countries.

We exchange views and dialogue with our stakeholder groups using all communication channels, both traditional and also, increasingly, digital.
OUR CONCEPT (Comments)

Our company follows the tradition of our founder Gottlieb Duttweiler (1888–1962).
We utilise any profits that are not required to safeguard the company itself to improve the quality of life of our customers, employees and society – in those areas in which we operate commercially.

Improving quality of life is therefore the focus of everything we do. In this respect we want to lead. This applies to our values, the way we conduct ourselves and the forms of cooperation, as well as to our products, services and brands. Quality of life is whenever and wherever we provide new solutions for our customers. Our profound knowledge and experience of customers’ needs give us the basis for this.

The permanently growing and changing need for ever better quality of life at all levels of society and regions of this world gives us a great opportunity for growth for our company.

Quality of life means different things to different people. Some regard it as including working conditions, others the quality of the products they consume, others the quality of the environment in which they live, and still others their entire well-being, etc.

Here at Migros, we place quality of life under the concept of “conscious consumption” and concentrate on improving the following elements of quality of life: health, regionality, sense of belonging, reliability, simplicity, aesthetics.

This focus on quality of life is based on megatrends, which we regard as the motor of our growth.
For Gottlieb Duttweiler, the theme of “improving quality of life” was associated especially with a fair price-performance ratio – better value for money – for the customer. Quality of life was created in the role of the “price breaker”.

To conform to the guiding concept of a “fair price-performance ratio” in our everyday activities, we design our value-added chain to be highly efficient. For many years, our organisational superiority gave us a key competitive advantage. To some extent it shapes our core identity. However, as our competitors become increasingly globalised, this organisational superiority is being lost. Nevertheless, offering the best value for money remains a major concern for every successive generation of managers. This self-image does have consequences. Having our own production facilities, for example, allows Migros’ own products and services to be created according to its own strategic policy goals. This will help us, especially in the Cooperative Retailing sector, to position ourselves as the product leader, and also in the long term to set ourselves apart from our competitors. International purchasing enables us to buy products at reasonable prices, while taking ethical and ecological principles into account. Our service providers – such as Migros Bank – also stand for a fair price-performance ratio.

Having the organisational form of a cooperative, we have the ability, and the mandate, not only to consider the good of shareholders exclusively, but to retain any profits that we do not reinvest in the business, or to distribute them in some other way. We invest, for instance, in our employees, or it goes to benefit the customers, whose concerns we are committed to. The Club Schools enable people to follow a course of high-quality further education or training. Sports and leisure amenities offer practical ways for people to spend their leisure time at reasonable prices. Our commitment to the good of society takes the form of the Culture Percentage.

Regional Cooperatives means, firstly, having various stand-alone organisations, but secondly also respecting local jobs and regionality. Being a cooperative means that many different interests have to be coordinated and taken into account – in many ways we are like Switzerland, with its basic federal structure.
With our statements on configuration, we are, firstly, specifying the strategic business units which the Migros Group operates in, and secondly we are setting out how the portfolio management should be run. This is done taking into consideration our Vision and Mission and the Targets associated with them.

In general terms, we manage the configuration of our business within the meaning of our strategic concept.

The Migros Group currently operates in five strategic business units (SBUs): (1) Cooperative Retailing (the “Orange M”), (2) Commerce, (3) Industry & Wholesaling, (4) Financial Services and (5) Travel. One or more business entities (BEs) are then allocated to each of these strategic business units.

To continually optimise our portfolio, we operate an active and consistent portfolio management. On the one hand, this means that we selectively close strategic gaps in the existing businesses, or decide to invest in future growth areas, if we can show that the new business might be sufficiently in line with our core competencies, and if there is a clear prospect of achieving the defined performance criteria. But on the other hand, it also means that we can withdraw in good time and as profitably as possible from businesses that do not meet our criteria.

For portfolio decisions like this, each of our business entities is analysed from six perspectives: financial performance, contribution to the implementation of the Migros Group strategy, product leadership & innovation, market/competitive performance, human resources and social performance.

From the financial point of view, for the portfolio of our businesses we aim for a balanced relationship between value generators and cash providers.

Backed by this analysis, each business entity is allocated one of the following four roles in the portfolio: Growth Contributor, Core Identity, Free Cash Generator and Open Role. On the basis of these role allocations, a decision is then made on the agreements on targets to be set in the annual strategy process.
OUR COORDINATION

By “coordination” we mean our activities for the integration of the strategic business units and business entities incorporated in the Migros Group. Our goal here is to use these group activities to create value added from the realisation of synergies that is greater than the expenditure involved.

With our group strategy we are aiming especially to make full use of the following five potential synergies:

- We should utilise our inter-group focus on improving our customers’ quality of life to jointly open up new markets and develop new business concepts. To this end, we should initiate and conduct (a) strategic Migros Group initiatives covering the whole of Migros, and (b) strategic Migros initiatives covering a number of business units; these should be selected at group level.

- We should realise management synergies, (a) in the form of actively seeking out and transferring optimum solutions for comparable problems (“Best Practices”), (b) by combining similar administrative activities and processes to make use of benefits of standardisation, and (c) by the systematic operation of a group-wide executive development programme.

- We should set up functional Shared Services to realise cost synergies, both at group level and at strategic business unit level.

- Financial synergies should be identified as a whole by the FMC. This involves utilising advantages derived, including for the individual businesses, from the reduction of overall risk, from access to capital on more favourable terms and its management to the best effect, and from the taxation of the company.

- To present a coordinated front to political bodies, and to give sufficient emphasis to our concerns, our national political interests should be represented as a whole by the FMC.
OUR STYLE

With our interactive style we determine the ways and means in which the group level interacts with the strategic business units level.

With the group strategy, the Board of Directors and the Executive Board set a rough framework and direction for the strategies of the strategic business units. Linked to this are the binding annual agreements on targets and roles which are required and verified by the Executive Board.

Formally, the interaction between group level and strategic-business-unit level is controlled by the Migros Group strategy process, which is to be conducted annually. The strategies and strategic business initiatives of the business units are verified and critically examined at this point.

The strategic business units should develop their strategies for this independently, both in terms of content and procedure, as part of the group strategy and taking interfaces with the group strategy process into account. The reporting methodology is standardised here, for reasons of comparability.

The strategic business units (SBUs) must be allowed the greatest possible corporate autonomy. They will manage and coordinate the portfolio of the business entities (BEs) allocated to them. The SBUs and BEs will be given clear objectives and roles. Where potential synergies are identified between the businesses, the group management will selectively impose procedures to realise them.

Intervention at group level involves conducting selected strategic initiatives within the business units wherever there is a prospect of potential value added for all, but which can only be realised by joint, integrated effort. In this case the business units are actively involved in formulating and implementing the strategic initiatives.

The form of implementation of our interactive style varies: in the Cooperative Retailing sector it takes the form of a cooperative approach, while the other strategic business units are managed directly.

We generally maintain an interactive style that is based on agreements made and mutual trust, on commitment and reliability, and on openness.
**OUR STRUCTURES I**

For the Migros Group strategy to be implemented efficiently, a suitable organisational structure is required.

**Primary and Secondary Structure**

The Migros Group’s primary structure follows an industry sector logic. The regional Cooperatives operating in the retail sector are an exception. At the first level of our primary structure we set up our five fields of activity in the form of strategic business units (SBUs): (1) Cooperative Retailing (the “Orange M”), (2) Commerce, (3) Industry & Wholesaling, (4) Financial Services, and (5) Travel. One or more business entities (BEs) are allocated to each SBU at the second management level. All SBUs and BEs are responsible for their own profits.

With our secondary structure we coordinate and integrate our inter-SBU strategic activities. In this way we are aiming to utilise the potential for cost and growth synergies deriving from our diversified group structure.

We distinguish between three types of strategic initiative: (1) Strategic Migros Group Initiatives (SMGs): These encompass all SBUs, and are directed by the Chief Executive Officer, who is responsible for them. (2) Strategic Migros Initiatives (SMIs): These encompass several SBUs, and are conducted under the responsibility of a member of the Executive Board. (3) Strategic Business Unit Initiatives (SBIs): These cover only one SBU and are conducted under the responsibility of a member of the management team of the SBU concerned. The Executive Board is responsible for the overall management of the portfolio for these strategic initiatives.

In the Cooperative Retailing sector, over and above the Migros Cooperatives, coordination is the responsibility of the Retail Committee (RC), on which the head of each Cooperative is represented.

Where significant cost synergies can be realised without sacrificing material benefits of localisation, we set up functional Shared Services Centres. These can be managed at group or SBU level. Organisationally, such operations are incorporated in competence centres, and these in turn are established at the locations within the group best qualified for the purpose.

To increase reciprocal transparency and simplify the bilateral learning processes, we support initiatives for theme-specific exchange platforms, in which a “Best Practice Transfer” can take place most effectively.
OUR STRUCTURES II

Governing Bodies
The most senior body of the Federation of Migros Cooperatives (FMC) is the Assembly of Delegates (general assembly). It is responsible in particular for formulating and amending the Statutes of the FMC and, indirectly, those of the regional Cooperatives, which must not be contradictory to the Statutes of the FMC. The Assembly of Delegates also elects the Board of Directors of the FMC.

The FMC Board of Directors is responsible for the overall management and supervision of the Migros Group. It formulates the strategy of the Migros Group. Permanent committees are set up to deal with specific issues. The Board of Directors may also appoint ad hoc committees.

The Board of Directors delegates the management of the business of the FMC and its subsidiaries to the Executive Board. Its responsibilities are as follows:
- overall responsibility for operational management of the business lies with the Chief Executive Officer
- responsibility for the SBUs and management of the SBU portfolio
- responsibility for directing the Strategic Migros Group Initiatives (SMGs) and the Strategic Migros Initiatives (SMIs), and also for the management of the strategic initiatives portfolio
- responsibility for Shared Services
- responsibility for the Migros Culture Percentage
- responsibility for the Corporate Functions
The direction and control of the Migros Group is based on a series of management systems. These management systems have to be structured in such a way that support for implementation of the group strategies is as effective as possible.

The central management systems at Migros Group level are (1) the Migros Group strategy process, (2) strategic reporting, (3) operational planning and reporting, (4) risk management, (5) executive staff development, and (6) the incentive and reward schemes.

(1) The Migros Group strategy process
The interaction between group level and the level of the business units is regulated by the formal Migros Group strategy process. This process consists of three subprocesses:

- **Strategic planning and control**: This is centred around the annual strategic planning process carried out by the Executive Board and also involves the Board of Directors. It is here that the group strategy and targets are coordinated with the strategies of the business entities. As a result of this process, the Executive Board agrees targets with the business entities, and those targets are then approved by the Board of Directors as a whole, as part of the financial planning.

- **Strategic early detection**: To structure our future, we aim to identify and deal with new developments as early as possible. Starting from there, we identify trends that are relevant for the group, and which should assist the business entities to achieve above-average growth and innovations.

- **Strategic initiatives**: Non-recurrent strategic initiatives are initiated and directed by the Executive Board, straddling the strategic business units. These are intended to exploit the potential synergies existing in the group on selected themes for the benefit of the individual business entities. In overall terms, the portfolio of strategic initiatives is directed by the Executive Board. Responsibility for the conduct and continuous improvement of this three-tier group strategy process lies with the Corporate Development Division of the FMC.
OUR SYSTEMS II

(2) Strategic Reporting
The Migros Group’s strategic reporting is centred on the Migros Targets Cockpit. This is used to follow three areas in the group’s development: (a) the performance of the strategic business units and entities, (b) fulfilment of our benefit pledge to our stakeholders, and (c) the development status of our portfolio of strategic initiatives.

The Cockpit is supplemented by trend reports on important developments in the general environment of our group.

(3) Operational Planning and Reporting
Financial and operational coordination with the strategic business units and business entities is done by means of the 3-year financial plan. Portfolio and investment planning in particular must be structured in conformity with the strategy.

Periodic reporting on the progress of business is used for fine-tuning towards a sustainable attainment of targets.

(4) Risk Management and Compliance
The tasks of our risk management system are (a) to identify at an early stage events involving risks, and developments that could seriously jeopardise the reputation and business activity of the Migros Group; (b) to prepare for the occurrence of events involving a particular risk; a key element of this is the development and simulation of emergency scenarios; and (c) to comply with the annual reporting requirements associated with our regulatory framework in respect of these risks to our supervisory bodies.

A Compliance System adapted to corporate risk ensures compliance with the legislation – primarily that covering cartel law and anti-corruption, in that it defines processes by means of which breaches of the rules are averted, detected and can be sanctioned if necessary.
OUR SYSTEMS III

(5) Executive Staff Development
The substance and implementation of our strategies have been, and still are, essentially shaped by our executive staff.

The actions they take as managers are based on the normative framework of our Migros Group strategy: (a) the exemplification of the common values, (b) orientation of actions to the benefit pledge to our stakeholders; (c) striving to achieve our Vision “Migros – a better life every day”; and (d) commitment to the agreed targets.

We also promote executives who successfully manage their businesses with a high degree of entrepreneurial self-reliance and to the benefit of the whole. The prerequisite for any career in the Migros Group is the exemplification and promotion of our common values, and also thinking and acting within the concept of the group.

The primary duty of our executive staff is to achieve the agreed targets. Executive staff also have the following duties: (a) to determine the strategic orientation in the given context; (b) to have available a strategically appropriate management organisation and the necessary resources; and (c) to encourage and motivate employees in implementing the strategy.

An annual assessment is made during the M-FEE discussion which provides information about the extent to which these preconditions are being met.

To ensure that we have sufficient executives with the above qualifications available for the organisation, we operate a systematic, interbusiness unit executive development programme that is tuned to the development potential and needs of each individual and of the organisation.

(6) The Incentive and Reward Scheme
We create performance-related incentives where (a) it is a question of motivation to successfully deal with the business at hand, and (b) where changes in our strategic orientation should be selectively supported by strategic initiatives.

We create non-financial incentives in particular by attractive possibilities for personal development and also by symbols of social recognition.

Financial incentives are defined within the framework of M-FEE and have a clear performance focus.

In the case of our executive staff, the incentives should be oriented in a balanced form to both the performance of their area of responsibility and also to their contribution to the Migros Group as a whole.

Performance-related bonuses are possible as a form of variable reward within specified bandwidths.
With the present Migros Group strategy we illustrate the way to direct our diversified business activities and to create sustainable value added by the group. This strategy comprises three elements: (1) Normative Framework, (2) Corporate Strategy and (3) Corporate Governance.

With the Normative Framework we provide a four-way orientation: the Mission is an expression of the benefit pledge that Migros has made as a commitment to its stakeholders. It explains the purpose of everything we do. Our Vision sets the “height of the bar” which we want to jump over. Our conduct towards the stakeholders referred to in the Mission is based on our Values. Oriented to the Mission and Vision we set our Targets.

The Corporate Strategy incorporates statements on the business operations of the Migros Group:

- The strategic concept represents the conceptual binding around all the businesses run within the Migros Group. It is an expression of the logical understanding of the Board of Directors, which is responsible for strategy, and the Executive Board, for the business in which Migros as a whole is involved in.

- With the strategic configuration the company makes observations on the further development of the portfolio of businesses in which it wishes to compete, now and in the future. These include strategies on withdrawing from businesses, as well as on growth strategies for the further development of the remaining businesses and for embarking on new businesses.

- Strategic coordination is about identifying and realising potential synergies.
Corporate Governance relates to the provision of appropriate support with implementation of the Corporate Strategy by the management and control structure.

- For this purpose, the interactive style defines the ways and means in which the group level interacts with the strategic-business-units level.
- By adapting the organisational structures we divide the company into its subunits and set up coordination mechanisms for their integration.
- By adapting (management) systems we set up procedures that are used to orient decision-making behaviour to the group strategy. Examples of these are planning systems, assessment and incentive schemes and reporting systems.

Strategic business units (SBUs) form the first level of planning and control below the Executive Board.

Business entities (BEs) are management units within the strategic business units that are relatively autonomous in respect of strategy.

Strategic Migros Group Initiatives (SMGs) cover the entire Migros Group. Each of them relates to a particularly prominent strategic issue that is dealt with over and above the whole group for a certain time and directed by the Chief Executive Officer.

Strategic Migros Initiatives (SMIs) cover one or more (but not all) Migros Group strategic business units. Each of them relates to a particularly prominent strategic issue that is dealt with for a specific time and directed by a member of the Executive Board.

Strategic Business Unit Initiatives (SBIs) are particularly prominent strategic projects of a strategic business unit. They are directed by the SBU management.

The Executive Board controls SMGs, SMIs and SBIs using the strategic initiatives portfolio.

The Migros Targets Cockpit covers the Group's strategic reporting and is a traffic light diagram providing information on achievement of targets relating to group targets, initiatives and individual business units.

For us, sustainable development means a proportionally balanced range of activities in terms of economic, ecological and social impact, with the aim of safeguarding the success of the Migros Group in the longer term. In this respect it is important for us that Migros:
- offers a wide range of sustainable products and services;
- is a partner for a healthy lifestyle;
- sets standards for climate protection and resource efficiency;
- is an exemplary employer;
- promotes a sense of partnership.
MIGROS