NEW REPORT

DISCOUNTERS

ResearchFARM

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Retail Analysts

7 Strategies:
How to combat the discounters

WANT TO KNOW WHAT WORKS?

March 2015

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Key questions answered + table of contents

7 STRATEGIES

Over the last three months ResearchFarm has conducted an in depth analysis of the chances of success of various tactical and strategic responses to the discounters, including:

- **relaunched private label propositions**
- **price wars**
- **discounter launch or acquisition**
- **co-location**
- **convenience retailing**
- **online retailing and**
- **raising buying synergies**

The recommendations and conclusions are based on historical evidence and include case examples from Belgium, Denmark, France, Germany, the Netherlands, Poland, Spain and the UK.

Broadly speaking we found that three strategies have failed to reach their aim. Three other strategies were quite promising, whilst on a seventh the jury is still out.

The report shows clearly what works and what - so far - has not.

In this report our consultants reveal some of their trade secrets and cutting edge thinking, which they have not shared with the wider sector before.

7 STRATEGIES: KEY QUESTIONS ANSWERED

ON STRATEGY:

- ? Are there any strategies that will contain the growth of the discounters?
- ? Is launching a price war an effective solution? How long do they usually last? What does usually happen after a price war?
- ? Can private label proposition relaunches achieve the desired outcome? Do better value ranges help grocers to compete with Aldi and Lidl?
- ? Is it a good idea for a multichannel grocer to launch a discount channel or acquire one? Is it better to self cannibalise than to be eaten?
- ? What are the opportunities in convenience retailing that could help against Aldi and Lidl? And why?
- ? Is online retailing a panacea? What will happen when the discounters stretch their offer into click & collect?
- ? Which discounters do already offer home delivery on their food ranges? What are the latest developments at Lidl?
- ? Will new online service and marketplace models become the biggest threat to the discounters in future?
- ? Is co-locating and footfall sharing a good strategy? Is it the only pragmatic solution available?
- ? Can raising buying synergies or logistics synergies turn the tide against the discounters? Are French players on the right track?
- ? What is the historic record of these initiatives? Which have worked in other markets? Which have failed every single time?

ON THE DISCOUNTERS:

- ? How big are Aldi and Lidl in their respective markets? What are their market shares?
- ? What are the main differences between the two businesses?
- ? What are their growth opportunities?
- ? Why are the likes of Mercadona, Biedronka, Colruyt and Denmark's Netto successful while Dia, Leaderprice, Penny and ITM's Netto clearly are not?

FEATURES AND BENEFITS

FEATURES

- An in depth introduction into the discounter concept and the current health of the EU grocery sector
- The most important data points, KPIs and benchmarks of both Aldi and Lidl
- In depth analysis of the various defensive strategies of grocers, their positive and negative outcomes
- Case examples from EU markets where the discounters have already advanced further
- Innovation in the discount sector
- Innovative solutions in online and convenience retailing

BENEFITS

- **Gain insights into the little understood discounter model in general**
- **Understand what differentiates Aldi Sued from Aldi Nord, and where both radically differ from Lidl**
- **Reliable data in light of the discounters' highly secretive approach to business**
- **Find out which pitfalls to navigate, when competing with the discounters**
- **Learn which strategic direction promises the best results**
- **Get access to best in class execution, shape your strategy accordingly**

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Charts and Tables

Zoom in to read

SAMPLE PAGES

7 strategies: Hard discounters average SKU sales in UK, price wars

Chart 9

This approach of radically editing choice is conceptually so diametrically opposed to a supermarket's modus operandi that combating the discounters will be very hard for UK grocers. Moreover, the EDLP policy of the hard discounters also runs totally counter to a high/low pricing scheme that harnesses insights from a loyalty scheme and exploits promotional opportunities.

Hard discounters are very much product centric and are run according to the principle that as long as the product and pricing is right, the rest (such as loyalty) **will fall into place by itself.**

A solution to the hard discounter threat often put forward by city analysts is entering into an out and out price war, but we would caution against this. Historical evidence from the other European grocery markets, where incumbents have reacted like this to the threat of the hard discounters have only resulted in margin destruction and grocery price deflation across the board, it hasn't stopped the relentless march of the discounters.

One should consider, compare and contrast the SKU ranges of the two business models to understand how the maths are stacked against a hypermarket operator with 10,000s of SKUs versus a small footprint discount store with a SKU count of between 1,000 to 1,500 SKUs, backed up by a global (supply chain and buying) operation.

Aldi Nord: 2013, sales per country in €m, market

Table 5

Country	2013 Sales (€m)	Market share
Germany		
France		
Netherlands		
Belgium		
Spain		
Denmark		
Poland		
Portugal		
Luxembourg		
USA (Trader Joe's)		

Chart 4

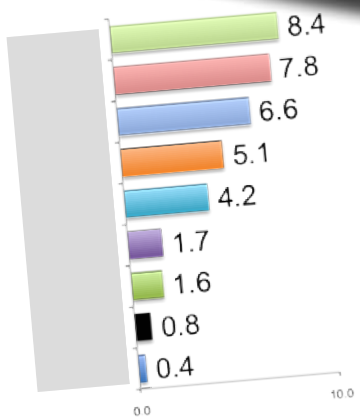


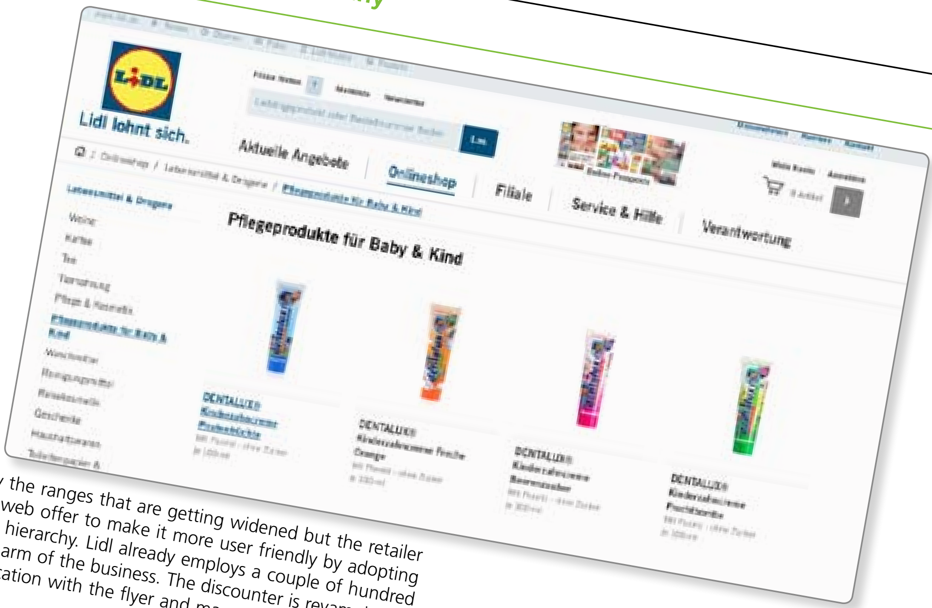
Table 5 shows Aldi Nord's sales per country in €m in 2013 and its respective market shares in those markets. In terms of sales Germany is Aldi Nord's most important market with €11bn generated in 2013, followed by the USA (€6.9bn) and its Trader Joe's business and France with €3.0bn, closely followed by the Netherlands (€2.5bn).

As chart 4 shows from a market share perspective Aldi was strongest in Belgium (8.4%), the Netherlands (7.8%), Denmark and Germany in 2011. We expect the market share in Poland to be driven up further, as it is the latest and newest market the retailer expanded into.

SAMPLE PAGES

Zoom in to read

Lidl: online turnover figures in Germany



That said, it's not only the ranges that are getting widened but the retailer is also overhauling its web offer to make it more user friendly by adopting a clearer structure and hierarchy. Lidl already employs a couple of hundred employees in its digital arm of the business. The discounter is revamping its multichannel communication with the flyer and magazines in store sharing content with online.

Lidl's reach online is so far not in the top ten in Germany. According to some estimates Lidl reached a turnover of around online, a drop in the ocean compared to its €18bn achieved in offline.

December 2014: Lidl launches Deluxe online in Sp

In December 2014 Lidl launched its online offer in Spain with its premium private label Deluxe range. On Lidl's website vinosdeluxe.ultimas-unidades.es shoppers can buy shelf stable products from categories such as antipasti, poultry paté, risotto rice or marmalade and jams.

In July more control had been ceded to the regional buying offices from Germany in regards to the Deluxe range and how it was to be retailed in the respective markets. Previously mistakes had been made with the range, too many products had been bought that didn't shift, watering down the exclusivity angle of the brand somewhat.

TESTIMONIALS - OUR CLIENTS SAY IT BEST

«Research Farm publishes great reports every year, and each report brings a unique perspective compared to any other information available elsewhere: the analyses go deep, they are supported with data, but what I most value is that each report is built around a 'clear story', contains proprietary insights and even sometimes innovative projections into the future which help us to think out of the box.»

Global Channel Category sales
Nestle waters

«For us the ResearchFarm reports are so useful. The information provided give us the opportunity to increase our knowledge about the retail industry and its key trends.»

Rafael Florez - CEO GS1 Columbia

«The discounters reports were and still are very helpful as we got lots of detailed information and figures we haven't found anywhere else. This has helped us to progress with our plans of expansion in the US and convince people internally of the market potential.»

Marketing Manager - Bonifaz-Kohler

«On DLF's (Danish Association of Fast Moving Consumer Goods Manufacturers) New Years Conference we had the great pleasure to hear ResearchFarm speak about future trends in online grocery retailing. The feed back from the conference participants was very positive as they gave ResearchFarm's presentation the highest score of all speakers, finding the analysis about the key success factors of chosen EU and US online retailers both very interesting and inspiring. We can therefore give ResearchFarm our best recommendation.»

Dagligvareleverandørerne
Danish Association of Fast Moving Consumer Goods Manufacturers

+ press quotes

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- **ALDI 2015: Radically transforming Anglo Saxon grocery markets** (reg. price GBP1,990)
- **7 Strategies: How to combat the discounters** (reg. price GBP999)

(brochures for these reports available on researchfarm.co.uk)

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