NEW REPORT

# LIDL 2016

# ResearchFARM


**LIDL 2016**
Europe's Leading retailer

**JUNE 2016**

**INSIDE:**
Key questions answered + table of contents

# INTRODUCTION: LIDL – ON COURSE FOR GLOBAL DOMINATION?

**Schwarz is leaving all store based grocers in the dust.** The Schwarz Group's total revenue grew 8% to €85.7bn (net basis) in its financial year 2015/16, which considering the high base is remarkable.

Already in 2015 the Group grew by 7%, which means **that within two years Lidl and Kaufland have generated an additional €10.0bn in sales and an end to growth is not in sight.**

The distance to competing retailers is getting greater by the day. To compare and contrast Carrefour, now Europe's number 2 grew by 4% to €77bn on a net basis.

**In 2016/17 the company plans to break through the €90.0bn barrier.** For this purpose the Schwarz Group has revealed plans to invest €6.5bn in the 2016/17 financial year, which is 7.5% of sales and shows the ambition of the retailer – especially at a time when other grocers are retreating.

Most of the money will be spent on the new Lidl store concept, new store locations and further international expansion. Meanwhile Kaufland has set up a 5 year plan to modernise its 650 German stores – which will also cost a lot of money.

At Lidl store design updates go hand in hand with range updates such as the bake off stations, extended fresh offer, the wine cellar etc. Crucially Lidl also makes the backend infrastructure ready with heavy DCs investment to complement the move to bigger stores and ranges – and online. The retailer also continues to invest heavily into its vertical integration.

**Looking ahead, as the EU's leading retailer Lidl now has its sights set on bigger goals.** The US demographic profile of 300m shoppers together with the structure of retailing in the country has created high expectations at Lidl's management.

# FEATURES

- Includes pictures from store visits to Lidl's new concept store in Portugal, France, UK, Italy and Germany
- All the financial data and KPIs, sales, stores, space and densities and market shares
- Data tables showing Schwarz's sales 2009-16 including Lidl/Kaufland split and country splits
- In depth focus on Lidl's Top 5 countries: Germany, France, UK, Italy and the Netherlands
- Development updates for Lidl's 2018 launch into the USA
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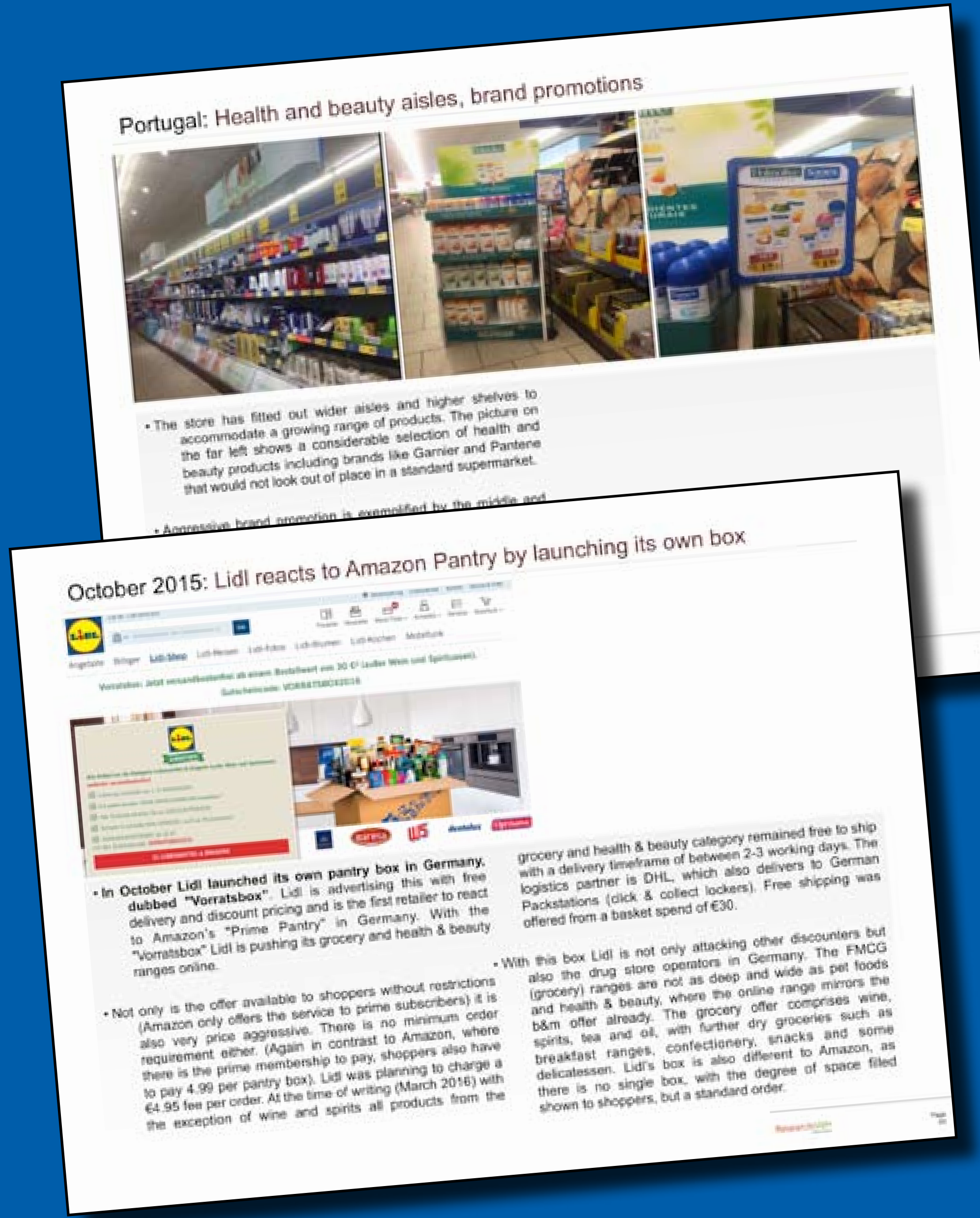
# BENEFITS

- Comprehensive understanding of the discounter model and what lies ahead in the USA and where Schwarz sits in the Global Top 10
- Deep insights into Schwarz Group's strategy for Lidl and Kaufland, an exploration of eight key components of Lidl's overall strategy
- Appreciate the challenges facing Lidl in making a transition from a limited discounter into a fuller serviced grocer.
- Understand what the new concept store strategy is all about from front to back end



# KEY QUESTIONS ANSWERED 1/3

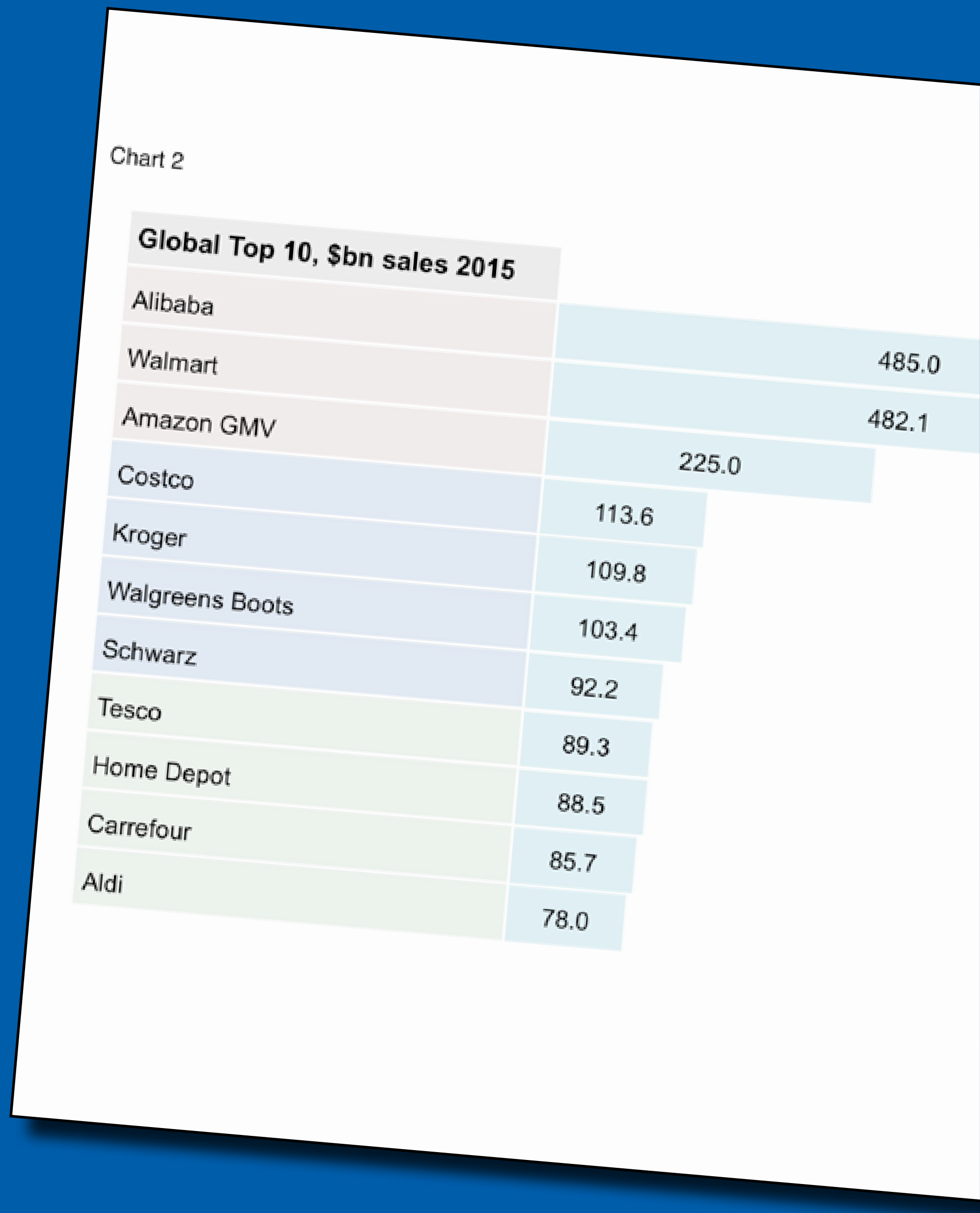
- What factors have been key to Schwarz Group's unrivaled growth rates?
- Is there a winning formula to succeed as a discounter?
- How is Lidl different from Aldi?

### New store concept

- What features have been included to make newly refurbished/built stores feel more upmarket?
- How does Lidl offset the costs from the new store concept, the higher minimum wage, higher costs in more modern DCs and business tech solutions?
- How has Lidl managed to find new efficiencies in the supply chains?

### Fresh & local

- Why are the fresh and wine categories such an integral part of Lidl's overall strategy?
- Will fresh food see Lidl pivot from a standardisation model towards local production in general?
- How can Lidl manage the tension between standardised ranges and cost efficiencies and localising the offer?
- Is Lidl becoming a local player?
- Is Lidl more known for being a discounter or for quality and freshness?



# KEY QUESTIONS ANSWERED 2/3

## Vertical integration

- Why are the bake off stations so important? Why has Lidl vertically integrated in the production of the machines and facilities?
- What is the main driver behind Lidl's vertical integration in general?
- Which product categories has Lidl vertically integrated?
- Why is the retailer so keen on this model?

## Online

- What is Lidl's online strategy – as food is progressively added to non food?
- Could a click and collect service be introduced?
- Will Lidl's pantry box Vorratsbox rival Amazon Pantry?
- What is Kochzauber and why has Lidl bought the company?

## International expansion

- How does Lidl approach international expansion?
- What preparations has Lidl made for its expansion into America in 2018?

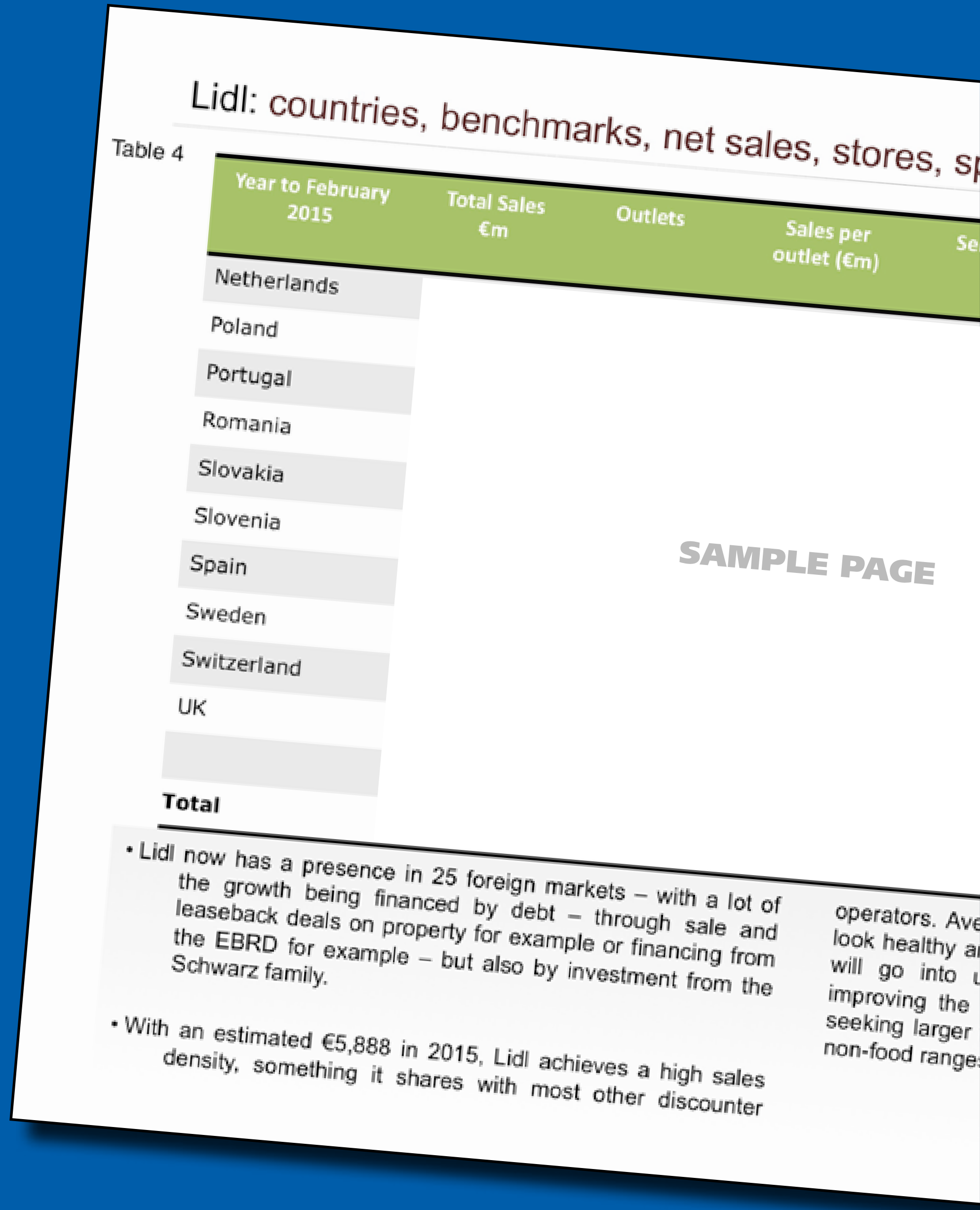

Lidl: countries, benchmarks, net sales, stores, sp

Table 4

| Year to February 2015 | Total Sales €m | Outlets | Sales per outlet (€m) | Se |
|---|---|---|---|---|
| Netherlands | | | | |
| Poland | | | | |
| Portugal | | | | |
| Romania | | | | |
| Slovakia | | | | |
| Slovenia | | | | |
| Spain | | | | |
| Sweden | | | | |
| Switzerland | | | | |
| UK | | | | |
| | | | | |
| **Total** | | | | |

SAMPLE PAGE

- Lidl now has a presence in 25 foreign markets – with a lot of the growth being financed by debt – through sale and leaseback deals on property for example or financing from the EBRD for example – but also by investment from the Schwarz family.
- With an estimated €5,888 in 2015, Lidl achieves a high sales density, something it shares with most other discounter

operators. Ave look healthy a will go into u improving the seeking larger non-food range

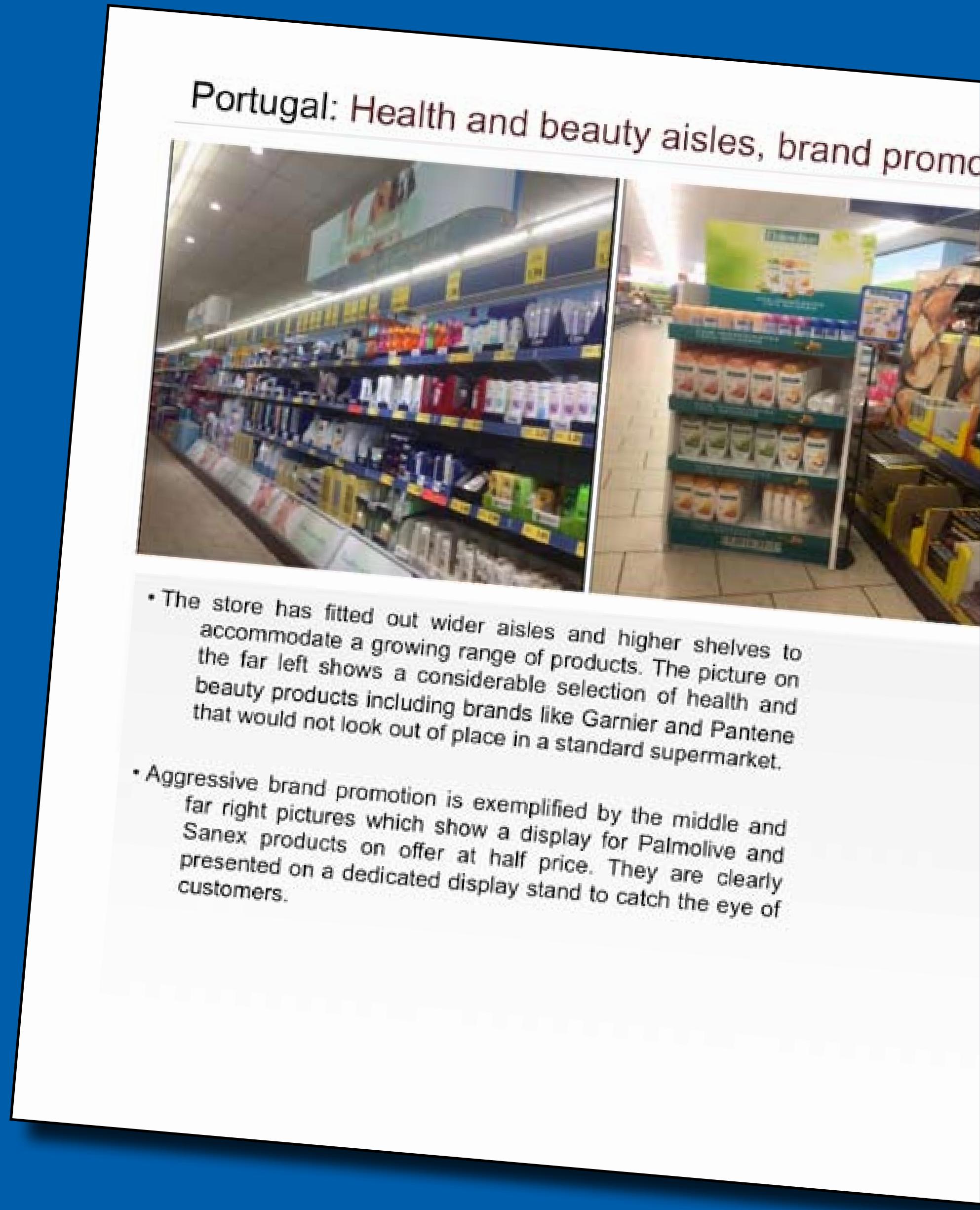
# KEY QUESTIONS ANSWERED 3/3

**FMCG A brands and private label strategy**

- Why does the retailer rely on triple supply chains so much?
- How does the discounter manage the FMCG majors?
- What problems has Lidl had with its Deluxe premium range? What has the discounter done to resolve some of them?
- What have been the consequences of the price war between Aldi and Lidl/Kaufland?

**Kaufland**

- How does Kaufland aim to return to growth in Germany?
- Which German city has Kaufland chosen to launch its first online service? What competition will it face?
- What area of Kaufland's operations has seen the most improvement?



# METHODOLOGY

ResearchFarm are retail research & analysis experts with an in-house analyst team covering all major retail sectors. We pride ourselves on strong relationships with leading retailers and our proprietary in-house data. The company is well known for its culture of high quality analysis and independent opinion backed up by robust data.

We use company accounts, retailer contacts, consumer research, trade associations, government statistics and historical data to arrive at our market sizes. The forecasts take into account consumer trends and demographics, the performance of the economy and the housing market, research from the treasury and the Bank of England and others.

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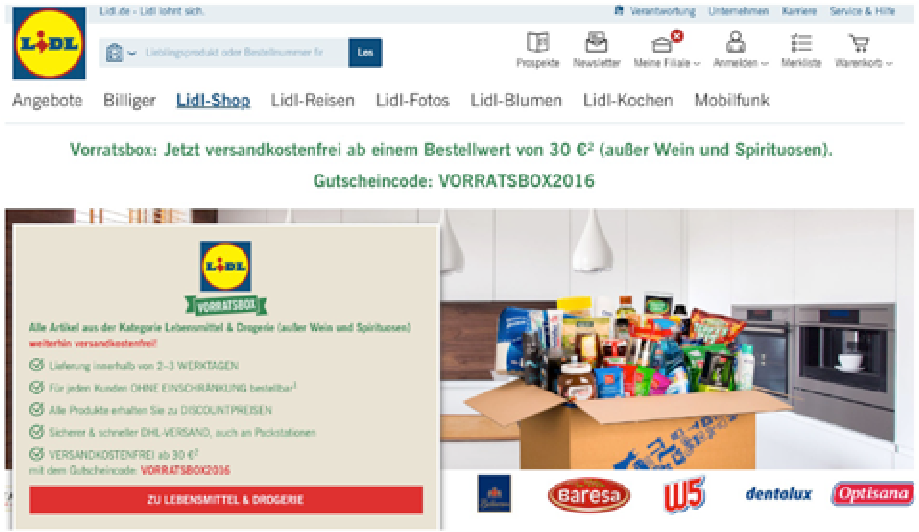
**Charts and Tables**

# SAMPLE PAGE

## October 2015: Lidl reacts to Amazon Pantry by launching its own box




- **In October Lidl launched its own pantry box in Germany, dubbed "Vorratsbox".** Lidl is advertising this with free delivery and discount pricing and is the first retailer to react to Amazon's "Prime Pantry" in Germany. With the "Vorratsbox" Lidl is pushing its grocery and health & beauty ranges online.

- Not only is the offer available to shoppers without restrictions (Amazon only offers the service to prime subscribers) it is also very price aggressive. There is no minimum order requirement either. (Again in contrast to Amazon, where there is the prime membership to pay, shoppers also have to pay 4.99 per pantry box). Lidl was planning to charge a €4.95 fee per order. At the time of writing (March 2016) with the exception of wine and spirits all products from the grocery and health & beauty category remained free to ship with a delivery timeframe of between 2-3 working days. The logistics partner is DHL, which also delivers to German Packstations (click & collect lockers). Free shipping was offered from a basket spend of €30.

- With this box Lidl is not only attacking other discounters but also the drug store operators in Germany. The FMCG (grocery) ranges are not as deep and wide as pet foods and health & beauty, where the online range mirrors the b&m offer already. The grocery offer comprises wine, spirits, tea and oil, with further dry groceries such as breakfast ranges, confectionery, snacks and some delicatessen. Lidl's box is also different to Amazon, as there is no single box, with the degree of space filled shown to shoppers, but a standard order.

# SAMPLE PAGE

Chart 2

| Global Top 10, $bn sales 2015 | |
|---|---|
| Alibaba | 485.0 |
| Walmart | 482.1 |
| Amazon GMV | 225.0 |
| Costco | 113.6 |
| Kroger | 109.8 |
| Walgreens Boots | 103.4 |
| Schwarz | 92.2 |
| Tesco | 89.3 |
| Home Depot | 88.5 |
| Carrefour | 85.7 |
| Aldi | 78.0 |

# Lidl: countries, benchmarks, net sales, stores, space, sales densities in 2015 2/2

Table 4

| Year to February 2015 | Total Sales €m | Outlets | Sales per outlet (€m) | Selling space (sq m) | Average space (sq m) | Sales Densities (€/sq m) |
|---|---|---|---|---|---|---|
| Netherlands | | | | | | |
| Poland | | | | | | |
| Portugal | | | | | | |
| Romania | | | | | | |
| Slovakia | | | | | | |
| Slovenia | | | | | | |
| Spain | | | | | | |
| Sweden | | | | | | |
| Switzerland | | | | | | |
| UK | | | | | | |
| | | | | | | |
| **Total** | | | | | | |



- Lidl now has a presence in 25 foreign markets – with a lot of the growth being financed by debt – through sale and leaseback deals on property for example or financing from the EBRD for example – but also by investment from the Schwarz family.
- With an estimated €5,888 in 2015, Lidl achieves a high sales density, something it shares with most other discounter operators. Average sales per outlet at around €5.9m also look healthy and a lot better than in the past. A lot of work will go into updating stores, closing tired outlets and improving the KPIs going forward. As ever, the group is seeking larger footprints for its Lidl stores to showcase its non-food ranges effectively and extend its fresh food offer.

SAMPLE PAGE

## Portugal: Health and beauty aisles, brand promotions


- The store has fitted out wider aisles and higher shelves to accommodate a growing range of products. The picture on the far left shows a considerable selection of health and beauty products including brands like Garnier and Pantene that would not look out of place in a standard supermarket.

- Aggressive brand promotion is exemplified by the middle and far right pictures which show a display for Palmolive and Sanex products on offer at half price. They are clearly presented on a dedicated display stand to catch the eye of customers.