

**NEW  
REPORT**

**LIDL / KAUFLAND**

# ResearchFARM

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## **Lidl and Kaufland 2015**

**Ramping up, relentless rise from copycat to innovator**

Is Lidl really becoming a supermarket or will it very much remain a price focused discounter, but one that gets significantly updated for the next decades, a hard discounter version 2.0?



January 2015

**INSIDE:**  
Key questions  
answered +  
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# LIDL: Key Questions Answered

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- How big is Lidl in each respective country? What is its market share? How big will the retailer become?
- How high are Lidl's and Kaufland's sales densities? Which are the most successful markets? In which markets is Lidl stronger than Aldi?
- Where is the discounter furthest ahead in changing customer perceptions - moving its brand image from low cost to quality and freshness?
- Where is the retailer most innovative with store refreshes? Will we see a convenience fascia stretched over two floors? What are Lidl's plans to propel the outlet forward? What changes is the retailer making in store to drive greater footfall, increase loyalty and frequency?
- How big are sales uplifts generated by store updates on average?
- How much do fresh ranges account for in Lidl? How is this different from market to market?
- What is happening with Lidl's US expansion?
- How big is Lidl's online operation in Germany? Is this a blueprint for the rollout in the other markets? How does Lidl manage the transition to becoming multichannel?
- What is the percentage of FMCG A brands of total SKUs in Lidl? Is this different from market to market?
- What is Schwarz private label strategy? What is the main driving force behind vertical integration at Lidl? Unique private label? Cost benefits? Secure supply?
- What are the key benefits of Lidl's international sourcing strategy? Where does this fall short? What about Deluxe?
- How much crossover is there between the two businesses, Kaufland and Lidl? How will this change in future?
- What are the key differences to Aldi?
- What innovative promotions, pricing strategies, store formats, expansion strategies and brand extensions will the discounter go for next? How big is Schwarz's pledged investment for 2015?



# KAUFLAND: Key Questions Answered

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- Is Kaufland the future of the hypermarket?
- How does Kaufland manage the introduction of small scale private label new product developments? Why is shopper insight crucial at Lidl but not to the same extent at Kaufland? What exactly is the concept of Warendruck?
- How big is Kaufland in each respective country? What is its market share? How big will the retailer become? How many stores will the retailer operate from in Germany? What about the CEE operations?
- Why can Kaufland generate sales in locations others can't? How can the retailer take over disused Karstadt buildings or beached whales of the competition and make them work?
- What is the future location for Kaufland, is it the inner city? Will it compete with Lidl?
- Why has there been a slowdown in Germany at Kaufland in 2014? What is the retailer doing about it?
- What are the plans for Kaufland?
- How does Kaufland reduce its input costs? How is the hypermarket leveraging its scale in the supply chain to drive efficiencies through? Is this a model for other markets? Is it a model for Lidl? By how much can the retailer reduce prices by leveraging its scale in the supply chain?
- What percentage share will Schwarz take of retailing in its respective markets?
- What does the German example suggest?





## This report...



- analyses the complex interplay between relentlessly optimised and standardised business principles, extremely lean ranges, leading to fewer production runs, leaner supply chain, smaller floor space requirements and less shop floor staff



- explains the strengths of a unique private label proposition, that disables easy price comparison and often sets the bar in terms of quality/price ratios, winning accolades from consumer watchdog organisations



- shows how a honest and simple offer that builds long term loyalty and customer relationship founded on lowest possible price and highest possible quality works without couponing, special offers and loyalty cards



- demonstrates how a product centric discounter can outperform the leading customer centric retailers without much cutting edge technology, by operating according to the principle that less is more, reducing complexity and by flawless execution and timely exploitation of trends

# ARE YOU GOING TO BE ON THE SIDE OF PROGRESS OR WILL YOU SAY NO?

## Lidl's rise as a threat to retailers

- Find out what Lidl's strategy is to update its formats - what kinds of stores will others have to compete with going forward? What will be in these stores? What will happen online?
- Uncover Schwarz' private label strategy. What product ranges will others have to compete with?
- Where will the discounter go next? What is the expansion strategy - what markets are being targeted? which channels?
- Where will the discounter become a threat to other retailers?
- Kaufland is making the hypermarket format work as the competition is struggling - identify the secret success factors.

## Lidl's rise as a threat to suppliers

- Find out where the vertical integration strategy is headed and whether there will be space for your products on Lidl's shelves in future.
- Discover how Schwarz helps to drive down costs in the supply chain and whether this is good or bad news for suppliers.
- Learn how to approach Kaufland about new product developments and launches.

## Opportunities

- Is there a way to capitalise on the company's rapid growth?
- Spot the gap and find out whether suppliers and other retailers can work together with Schwarz in the supply chain, on property location and format policy.
- What is beneficial about stocking products at the discounter? What are the pitfalls?

## This report will enable you to:

- Know your threat
- Learn best practice from the discounter
- Benchmark sales densities and KPIs
- Avoid knowledge gaps





## Schwarz: Germany's biggest retailer – and on track to become the EU's

**Schwarz generated net sales of €74.0bn in 2013/14 (March 2013 to February 2014).** This means Lidl's and Kaufland's parent is Germany's biggest retailer by some distance (Metro's sales in 2013 were €65bn) and could become Europe's biggest by the end of 2015, overtaking Carrefour and perhaps Tesco. For this year a net sales turnover of €78bn is predicted. Last year the retailer managed to grow rapidly by more than 10% with around 9,900 Lidl stores in Europe and around 1,150 Kaufland stores.

**Lidl contributed €54bn to the total, of which €18bn came from the domestic market.** Lidl operated 3,200 stores in Germany and grew by 9%. Lidl's European store network reached 9,875 outlets and grew by only 0.3% (as many older stores were closed down). The discount hypermarket hybrid Kaufland generated another €20bn from 635 outlets (2012: €18.7bn). Kaufland grew outlets by 3.6%.

Profit has grown in line with sales, but the company does not reveal the actual figure. Investments for 2013 were €4.0bn. The company employs 335,000 people.

Schwarz' double digit growth is remarkable in the context of figures achieved by both Tesco and Carrefour, much of this growth has been driven by renovation of existing stores, as well as contributions from increased fresh ranges and bake off stations especially at Lidl. Over the last two years alone, sales have jumped by €10bn and the increase was essentially like-for-like as a lot of smaller Lidl stores were closed during the period.

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## Lidl: recycling old sites, stretching footprints in



**Hand in hand with lesser outlets comes the move towards ever bigger outlets and average sales space expanding.** The main focus of the discounters store strategy has become the updating and improvement of existing stores. Lidl is already operating the biggest stores in the sector. At the moment it is Lidl and Aldi Nord that are rigorously weeding out underperforming, old and tired outlets without the necessary selling space. Lidl's average store size now runs at 1,080 sq m with Aldi Nord and Sued's store a lot smaller still.

However right now Lidl is looking for stores with a footprint of 1,400 sq m, double the size of its traditional format, there are still around 200 stores with a selling space of just 500 sq m in the country.

On these smaller spaces the modern Lidl concept cannot be realised, such as the bake off stations. The retailer is now radically pruning back, even if there is no substitute alternative. Furthermore similar to Aldi Nord the retailer now looks at closing stores too close in proximity to other Lidl outlets and hence cannibalising sales. The issue then is just who will move into the vacated building, and whether it is really better to have a competitor in there or whether it is better to cannibalise oneself.

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## Lidl: stopping self cannibalisation in Germany



All this doesn't mean however that Lidl wants to trade from a radically trimmed back store estate, rather qualitative and quantitative expansion is on the agenda. The expansion focus has shifted. In a saturated market with limited growth opportunities the core business needs strengthening. 2015 will see further work by Lidl to open more attractive, modern and bigger stores in Germany.

When one of two stores trading too closely to each other is shut down around 30% of sales are being lost. On the other hand cost savings for rent and staff are also substantial and core KPIs are boosted by this tightening especially when sales levels at the one remaining store can be kept more or less constant. Sales per outlet and sales densities should then grow. Total selling space has fallen back ever so slightly on last year.

Lidl is still looking for every opportunity to open stores in the market, it's just that selection criteria have become much tighter. That said the other big opportunity is clearly to optimise existing stores.



## Kaufland: experimenting with self check out and updating the format



Although Kaufland is trying to shrink the floor space in many locations, the experience from other hypermarket operators indicates that there are clear limits to the space race in the more mature markets,

Kaufland is also updating the POS offer in stores. In Germany Kaufland have installed separate scanning and paying stations. After customers have scanned all items at the scanning station, they progress to the automated paying stations which are staffed by security personnel, reducing overall staffing numbers and freeing up staff for other customer service tasks and most crucially de-cluttering the check out process.

The retailer hopes that in the right locations self check outs can improve top line sales and be used as a measure of differentiation and a unique selling point to siphon off sales from the competition. This is mainly valid in the major conurbations, where many consumers are time poor but cash rich.

In 2013/14 the retailer also started to get rid of its old branding in garish red and is moving to a more "grey" look to highlight a repositioning to a more premium offer. In store bakeries at Kaufland have also been a roaring success just as they have been for Lidl and the retailer is focusing more on more on "freshness".

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**Global Channel Category sales**  
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«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 on-line 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.»

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