



consumer insight

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The Hard Discounter Report

An Overview of Aldi and Lidl in Europe

based on The Nielsen Company's coverage of the Hard Discount channel across Europe

The current millennium has heralded the emergence of discounters across Europe and the recognition of a new force in developed retailing. Over the last few years, the growth of this format has taken many retailers and manufacturers by surprise and triggered a clear need for response strategies to capitalise on the growth trend.

Designing effective response strategies has, however, been notably difficult given the absence of factual, objective information on discounters. The intentionally low visibility of prominent players within the discount segment has contributed to this and stymied efforts to create a useful appreciation of the workings of the discount channel. A deliberately low media profile, unavailability of published results and lack of cooperation with industry bodies and service providers have made the discounter segment almost impenetrable.

For the first time, The Nielsen Company, the world's leading marketing information company, has been able to measure sales in this growing sector through its proprietary Hard Discounter research method – and has also integrated these results with other areas including Analytics, Consumer Panel – to present the best profile and understanding of Hard Discounters today. By tracking discounter sales trends in a systematic manner for the first time, we have uncovered the aspects that are defining and driving the discounter phenomenon in Europe.

Admittedly, the size and scope of any exercise to understand discounters is a demanding one that entails dealing with an enormous amount of data and statistics. To create greater clarity this report focuses on two of the largest and pre-eminent players within this segment. Both Aldi and Lidl are synonymous with discount retailing and are clear leaders within the segment. For many, they are the bellwethers of the discount world and their strategies are a powerful indicator of where the discount channel is heading and the width of tactics it typically employs in the markets where it exists.



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By analysing the performance of Aldi and Lidl in countries where they comprise more than 5% of retail sales either individually or in concert, we have arrived at a clear picture of their preferred strategies and a cross-comparison between them. The report uses key parameters such as the number of stores, share of trade, category importance, pricing policies and assortment strategies to shed light on a section of the retail market that has thus far been obscured by a lack of insightful information.

Focus on Aldi in Europe

Aldi's owners are thought of by many as the pioneers of the discount principle. Though it owes a large proportion of its overall sales to Germany, it is also present in 13 other European countries and is divided – due to its separate ownership structure – into two entities: Aldi North and Aldi South. Aldi North has 4,274 stores and Aldi South has 2,344 stores that are spread across Europe with a mutually exclusive geographic presence. Germany, France, Netherlands, Belgium and Austria have the highest number of Aldi stores followed by the UK, Denmark and Spain. Amongst the newer European countries, Aldi is only present in Slovenia where, like Austria, it uses the 'Hofer' brand name. (See Chart 1)

Aldi has cumulatively increased its store count on a continuous basis since its inception in 1991. In terms of store density, in Austria, Belgium, Germany and Netherlands – all markets that Aldi entered during the early phase of its existence – there is one Aldi store for every 20,000 inhabitants. This indicates a lot of space for Aldi to expand within countries it has entered more recently. If Aldi did attempt to match this store density in each of the other European countries that it is present in, the number of Aldi stores in Europe would triple. However, Aldi's approach to market entry and store expansion has been conservative.

Despite its growing presence, Aldi's progress is not uniform across markets. In some markets it has managed to garner a significant share of trade whereas in other markets it seems relatively under-represented. While it has managed a high single digit or double digit share of trade in markets like the Netherlands, Germany and Belgium, it seems less popular in markets like France, the UK and Ireland. Aldi's turnover per store too reflects this with a higher turnover for Belgium, Germany and the Netherlands but a relatively low per store turnover in France and Ireland. This can be attributed to differences in both the number of stores across countries as well as variations in consumer demand for the discount channel (Ireland) or more intense competition within the discounter channel (France). What this does belie though is the fact that Aldi's stringent focus on costs is likely to translate into much higher margins which will continue fuelling its growth. (See Chart 2)



The lack of uniformity in Aldi's progression and country-specific performance is also reflected at a category level. At a pan-European level, Aldi's share of trade across categories appears to vary widely. Despite a remarkable 17% share of trade for ready-to-drink shelf stable juice across Europe, it has a meager 2% share of deodorants. These disparities point to the fact that consumers may be choosing to shop within discounters for some items but not for others. It also means that in some markets, non-discounters and manufacturers have adopted successful strategies to fight off Aldi.

Interestingly however, Aldi's strength in select categories seems to be geographically consistent. When analysed for their relative importance to Aldi's assortment, the categories that registered a high importance were common across countries, pointing to its ability to deliver better value to consumers for certain categories. (See Charts 3 and 4)

In terms of pricing, despite the fact that Aldi's product quality is typically good, it still occupies the position of a price fighter. On average, its price across categories is lower by a sizeable 40% and slightly less (30%) in Germany. Once again, a lack of uniformity is evident in pricing as well. Price alignment for the same category is limited with the same category operating at different levels of discount to the average category price across different countries.

There are also factors other than price that may be working in favour of Aldi within some categories vis-à-vis others. For instance, in the Toilet Paper category, a limited 10% discount appears to have resulted in a 16% share of trade for Aldi. Conversely, in categories like Shampoos and Deodorants, a deeper level of price discount (-50%) has not necessarily guaranteed a higher share of trade. Once again, variations in product quality, pricing strategies and emotional pay-offs appear to be at play.

Typically characterized by smaller category assortment sizes, discounters use more limited product ranges to ensure streamlined operations, efficient sourcing and better shelf utilization. This results in tremendous savings that enable greater price compression. Aldi too offers an average of just seven items per category with each item clocking sales of over 10 million € annually. By limiting the number of items, Aldi manages to ensure that suppliers produce sizeable volumes of each item in a single run and extract even greater economies of scale. Faster turnover and logistically efficient pallets result in greater product freshness and even more profitable inventory management. (See Chart 5)

Aldi is present in 14 European countries

Number of Aldi stores in Europe

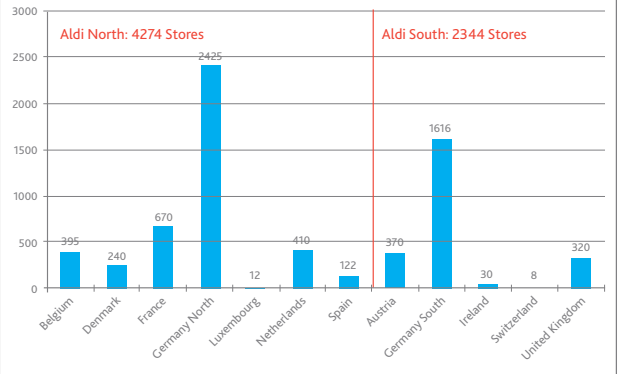


Chart 1

The share of trade of Aldi is very different by country due to number of stores and customer demand

Share of trade: Aldi, by country

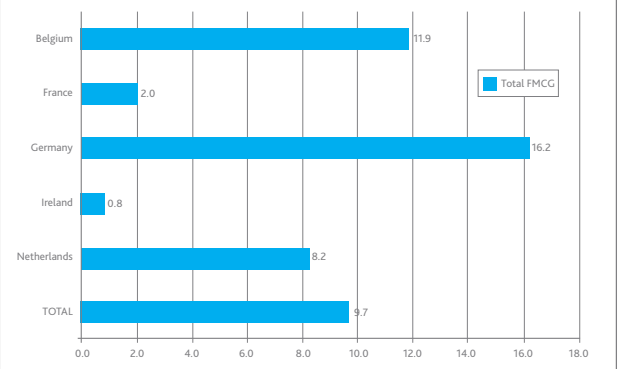


Chart 2

The share of trade of Aldi in Europe is very different by category

Share of trade: Aldi, by category

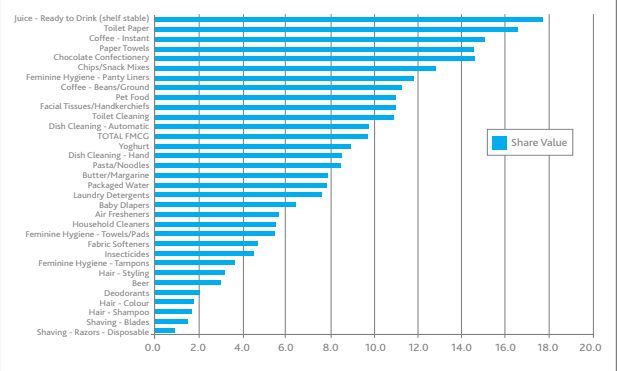


Chart 3

The Aldi strength by category tends to be similar across countries

Category relative importance in Aldi assortment

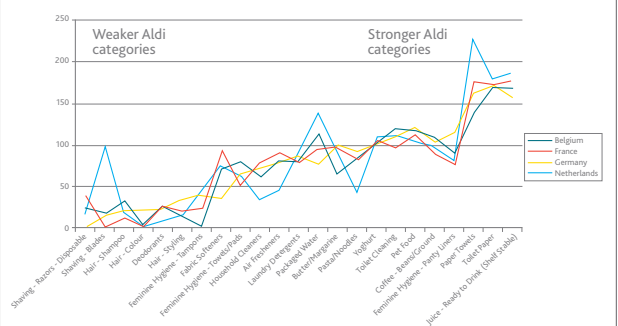


Chart 4

Within Aldi's stores, the assortment is predominantly local with an extremely limited presence of branded goods. When branded goods do get listed within discounters, it is usually with just one item. In the last year (2006), less than five new brands were introduced in Aldi stores, for example in Belgium, Netherlands or France.

A notable aspect of Aldi's assortment strategy is that it is constantly reviewed and revised to ensure that only the highest selling items continue in order to maintain profitability. On average Aldi tends to introduce 350 new items or strongly modified items per year in its stores.

Focus on Lidl in Europe

Lidl's expansion across Europe has been aggressive and ongoing. Currently present in 20 countries across Europe, Lidl has opened stores at the rate of one per day over the last 15 years. Its largest markets in terms of the number of stores it has in each are Germany, France, Italy, Spain, UK and Belgium. Across this wide network of stores Lidl follows a centralized approach to assortment management with the same assortment present in each store.

Like Aldi, Lidl too does not have its stores distributed evenly across the markets where it is present. Its wider range of geographic focus and lower overall store density has resulted in broad variations in its share of trade in each country. In markets such as Germany and Greece, Lidl has cornered a respectable share of trade but appears to be less successful in Ireland and the Netherlands. The turnover per store mirrors the trend in overall share of trade within a country. Together with differences in store numbers, the average turnover per store indicates that this is also likely to reflect consumer demand for the discount channel in these countries.

Analysed more closely at a category level, Lidl's share of trade differs vastly across individual categories when viewed at a regional level. In categories like Juice, Toilet Paper and Chocolate Confectionery, it has a high single digit share of trade but in categories like Shaving Blades and Razors, Hair Shampoo and Hair Colour, its share is negligible. (See Chart 6)



Notably, Lidl's category strengths are observed to be identical across boundaries. When analysed for a given category's relative importance in the Lidl assortment, the results are similar across countries. Exceptions to this situation occur only in a few categories where a difference in local tastes influences purchase behaviour strongly. For instance, categories like Beer show wide variations due to differences in consumer preference that may be likely to favour more local brands. (See Chart 7)

Lidl's pricing level too appears to change depending on the country and category under analysis. At a country level, its price differential versus the rest of the market is almost always over 30%, ie Lidl's products retail for less than 70% of the market price. The sole exception to this being Germany where Lidl possesses a lower differential of 18% compared to the rest of the market. This is primarily due to the fact that Lidl in Germany stocks branded goods thereby lowering the degree of discount between its products and the rest of the market on an overall basis.

True to its discount positioning, Lidl, like its counterpart Aldi, is a price fighter that sells products at a discount to other players in a given category. The level of discount does change depending on the category. In categories like Toilet Paper, Baby Diapers and Facial Tissues, the discount hovers between 10%-20%. This differs drastically compared to a much deeper level of discount in other categories such as Deodorants and Hair Shampoos where the level of discount goes as low as 60%-70%.

Interestingly, the pattern of discounts within categories is not consistent across the markets where Lidl is present. For each category, differences in pricing relative to the country's average price for that category show stark changes. This lack of pricing alignment is likely to be the result of lack of uniformity in terms of competitor pricing. This can be seen clearly by comparing the price differential for each of the categories Lidl is present in with its share of trade within that category. In categories like Juices, Toilet Paper and Instant Coffee, Lidl owns a reasonably good share of trade despite being only 15%-30% lower than the category average. In categories like Deodorants and Shampoos where Lidl trades at a much higher discount (approximately 60%), it owns a paltry share of trade. This indicates that price is not the only determinant of consumer offtake and other factors such as preference and perceived quality are at play. (See Chart 8)

For a discounter, Lidl appears to have a wider assortment within each category and country. On average, it lists about 13 items per category. This average is distorted towards the higher side in countries like Germany where Lidl also carries branded goods. A wider range is also the result of the fact that branded goods within Lidl do not act as replacements for Private Label but are carried in addition to them.

Lidl has opened stores at the rate of one per day over the last 15 years

Unlike Lidl's Private Labels which are matched across countries and follow a common basket of products, its assortment for branded goods tends to be more country-specific and comprises local brands. While Lidl stocks an average of nine branded goods in Germany, it carries no branded goods in the Netherlands and Portugal. On the other hand, in France for instance, Lidl has introduced multiple brands of Bahlsen, Ferrero, Masterfoods, and Unilever over the last year. This signals a country specific strategy to assortment management that complements the existing regional assortment present in all Lidl stores. On average Lidl introduces two SKUs for every brand it carries.

The average number of items offered by category remains very limited

Average number of items by category

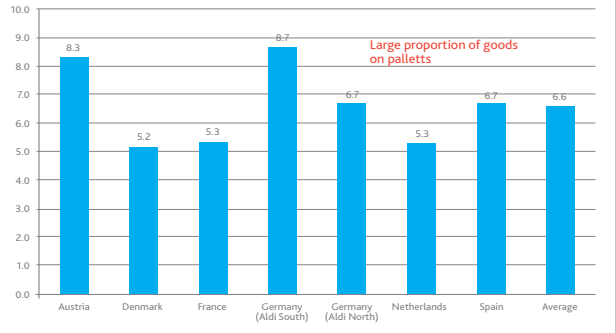


Chart 5

The share of trade of Lidl in Europe is very different by category

Share of trade: Lidl, by category

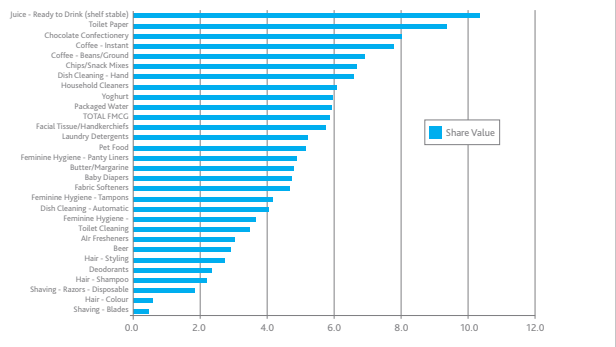


Chart 6

The Lidl strength by category tends to be similar across countries

Category relative importance in Lidl assortment

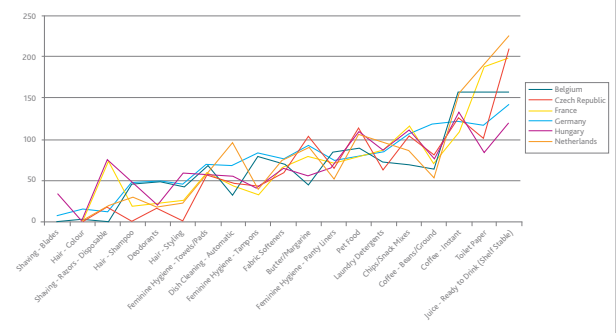


Chart 7

Lidl is a real price fighter but branded goods importance in Germany reduces this level

Price differential vs Total country in % (equ. sales). All categories in scope

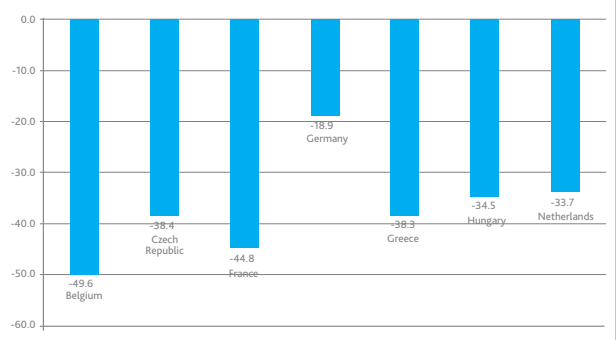


Chart 8

Comparison of Aldi and Lidl in Europe

A combined assessment of Aldi and Lidl in Europe leads to a comparison of the two leading players. In an overall regional evaluation, Lidl is more aggressive than Aldi with a presence in 23 countries compared to 14 for Aldi. Cumulatively, Lidl has increased its stores by a multiple of ten over a 15 year time frame. At this rate, it has far outpaced Aldi which has seen a doubling of stores over the same period.

Geographically, Germany is a large portion of the Aldi and Lidl portfolios but is a more predominant part of Aldi's presence in the region representing more than half its total number of stores. A similar comparison for Lidl reveals a much lower proportion of stores in Germany which houses less than half of Lidl's stores in Europe.

An analysis of the number of inhabitants per store in each country gives us an idea of how store density influences shopper dynamics. The average distance a shopper needs to travel to reach an Aldi store is shorter than the distance a shopper needs to travel to reach a Lidl store. This can be an important gauge of shopper proximity in a sector where location has an important bearing on visibility and footfalls.

At a category level, Aldi and Lidl have a lot in common. Their strengths and weaknesses are similar across Europe and may be symptomatic of the fact that their position in these categories is more a result of their competitors' weaknesses than just their own inherent strength. (See Chart 9)

The differences in pricing strategies are demonstrated by their price differential to the rest of the market. While they are both at a discount to the overall market, Aldi claims a stronger 'discounter' positioning on a comparative basis. This is fundamentally due to the greater presence

of branded goods within Lidl which tend to be at a lesser discount than the discounter's Private Label assortment. Again, the variation in price differentials across countries is explained by the fact that Lidl's assortment of branded goods varies at a country level and its variation within the assortment is not uniform across countries.

The key difference in assortment strategies between the two discounters is the size of the assortment. Generally, Lidl's assortment size is much larger than Aldi which prefers a more rationalized number of items per store and category. In select geographies like France and the Netherlands, however, both players maintain smaller, more manageable assortment sizes.

Apart from size there are two apparent deviations in the assortment management practised by Aldi and Lidl. While Lidl has a central 'core' set of Private Labels found in every country, Aldi's Private Label assortment is more country specific and less regional. This has clear implications on the cost advantages related to sourcing since a centralized approach would provide better economies of scale while a localized approach customized to local tastes may improve the rate of offtake and hence sales volumes. Another difference mentioned earlier is the approach to stocking branded goods. Lidl stocks a greater number of branded goods per store and category while Aldi stocks a negligible number.

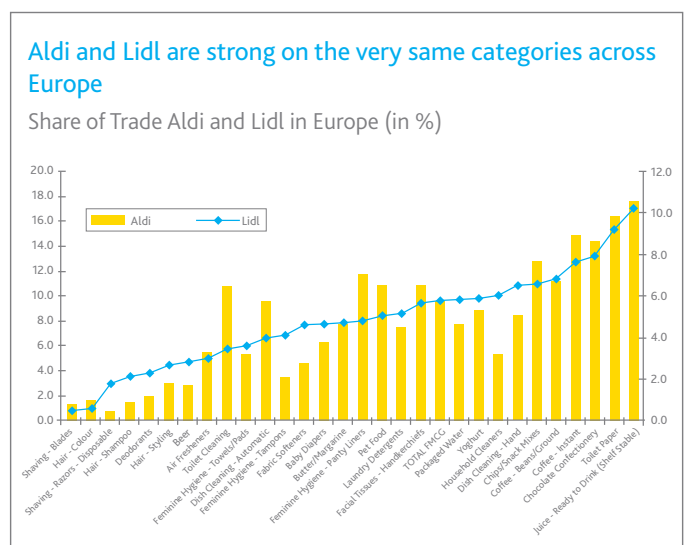


Chart 9



Threats to Lidl and Aldi

This report is meant to explain the various facets of the discounter model as it has formed in Europe and does not intend to evaluate the effectiveness and/or ineffectiveness of various approaches to countering discounters.

However, it would be useful to enumerate the various competitive actions and reactions to discounters such as Aldi and Lidl that have been applied by other retailers. These reactions fall into various categories and cover a gamut of tactical actions.

Promotion

- Competing chains have realized the importance of “in and outs” for durables and textiles and that it offers shoppers an incentive for the weekly visit to Aldi and Lidl. This was proven by the importance of ‘start of feature day’ for both chains and now an increasing number of chains offer similar one time deals to attract footfalls.

Assortment

- Chains have extracted greater pricing flexibility by using a basic assortment composed of both high quality and very low prices and by purchasing large quantities of the same item across countries. These economies of scale have been applied to various aspects of sourcing such as logistics and pallet handling of goods to create greater price parity. The generic multi-country ranges created as a result have had an impact on Aldi and Lidl.
- Active and regular re-assessment of assortments by competing retailers have matched the vibrancy of Aldi which tends to replace or strongly modify 350 of its 1,000 items per year in its assortment.
- Lidl tends to pay limited attention to local needs by promoting an European assortment. In such a scenario, non-discount competitors have found gaps that can be exploited by strong local brands catering to local sensibilities in categories where this matters.

Product Differentiation

- Retailers and manufacturers have created strong brands with clearly defined economic, functional or emotional value additions recognized by consumers. This has been bolstered with innovations that cannot be easily imitated.
- Effective advertising has helped manufacturers differentiate their brands strongly in the mind of the consumer. This increases the barriers to switching to the brands offered by Aldi and Lidl, and creates greater loyalty amongst shoppers.

Segmentation and Targeting

- Effectively segmenting and targeting consumers by making products that are recognized by them as a more relevant solution to their needs has been a strategy employed by non-discount retailers. With a greater width of assortment, catering to shoppers’ differing needs helps create a sense of ‘something for everyone’ and can deliver on a variety of shopper requirements.

Format Innovation

- Some retailers have created innovative formats to capitalize on the importance of proximity and its influence on shopper decisions. By identifying interception points based on Aldi and Lidl’s location, retailers have been able to create ‘Express’ formats.
- Smaller store variants that cater to the shopper’s need for the convenience of shorter distances to stores; new self-service scanners in mid-sized stores have also made the shopping check-out experience faster and therefore a more preferable option.

Research

- The increased availability, granularity and effectiveness of data and research have been used heavily by competing retailers and manufacturers to optimise their offering to clients. Aldi and Lidl are known for limited interest and investments in market research.

Aligning your Price and Promotion Strategies to Compete Against Hard Discounters

Experience tells us that, in times where regular prices across brands are increasing significantly, consumers tend to concentrate their purchasing at retailers where they can be certain of a low price. With their Every Day Low Price (EDLP) strategy Hard Discounters reassure consumers with their 'best price' image, and are able to capitalise on pricing changes in other retail channels.

The following study analysed in more depth if consumer price perception is the only reason for Hard Discounters gaining market share, and how traditional Hypermarket/Supermarket retailers and brand manufacturers could stop the negative trend.

The Market Situation

Increased raw material prices had led to regular price increases across all brands of more than 10%.

- Brands in the category are generally price sensitive, so the increased prices had led to a decline in volume.
- The result of this was reduced consumer consumption; losses to adjacent categories; brand switching to private label; channel switching to Hard Discounters.
- At the same time, brand manufacturers were reducing their promotion investment.
- The majority of category consumers were regularly shopping in both the traditional channel, and the Hard Discounter channel.

The Study: Key Findings

Nielsen's Analytic Consulting analysis of Consumer Panel data highlighted that consumers in this category have a large consideration set of brands, and whilst loyal to that set of brands, they are very willing to switch between brands.

- Combining Consumer Panel and Retail Scanning insight highlighted that promotions were a key driver of this brand promiscuity: within the relevant set, consumers were more likely to purchase the item with the deepest price cut than simply the cheapest item – over 70% of all purchases were made in this way.
- In the absence of deep discounts in the category, consumers opt for a cheaper private label within the channel, or they switch their category purchase to the Hard Discounter channel.
- The depth of price promotions had become key: smaller price cuts were not perceived as attractive enough; a minimum threshold of a 50 cent discount was required to impact volume sales; and significant sales increases required discount up to €1.

The Study: Recommendation

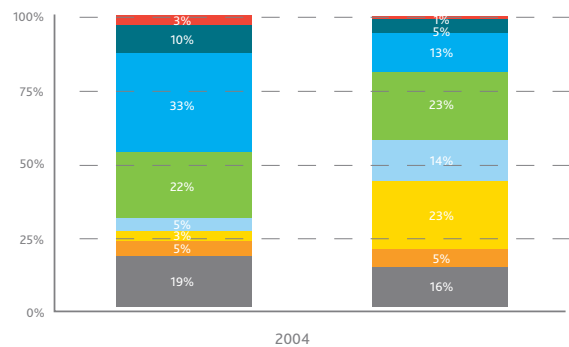
The regular price increases and reduced promotion investment had eroded brand share – the erosion needed to stop. Re-investing in deeper price promotions was necessary to stop category consumers switching retail channel: a well-planned, optimised promotion strategy could regain the category consumer, which would be in the interests of both the brand manufacturers and also the traditional Hypermarket/ Supermarket retailers.



Changed price strategy

Depth of price cuts changed from 68% (sum 3+10+33+22) of all price cuts with reduced price above 20% in 2004 to only 42% (1+5+13+23) in 2005. Number of activities is fairly stable.

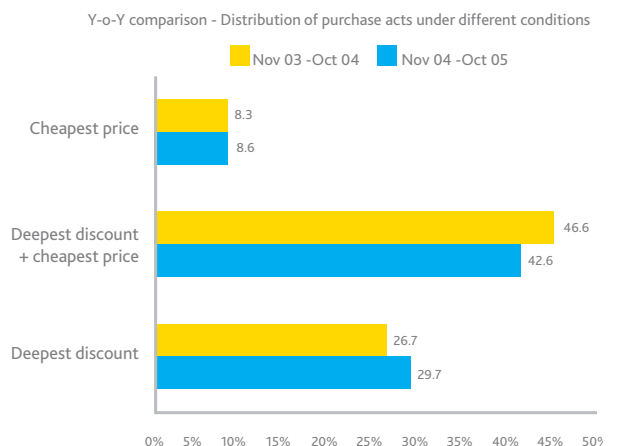
Example: In 2005 for the specific product in 14% of all promotional activities the price was between 15 and 20%.



It is not the cheapest price that dictates the choice

Consumers are more likely to purchase the item within their purchase set with the deepest price cut rather than the cheapest (perceived value).

The behaviour has not changed compared to last year, so this phenomenon is still existing, largest discounts within consideration set being the key determinant.



Homing in on the Discounter Phenomenon – a Consumer Panel View of Aldi and Lidl in Europe

What does consumer panel data tell us about the discount shopper?

An overview of six representative European markets that include the top five countries and Portugal show us that Aldi's 40 million shoppers and Lidl's 60 million shoppers combined outnumber the cumulated shoppers of all other retailers across these countries. Despite this, and the fact that Lidl's geography has resulted in more than half its shoppers residing outside its country of origin, a majority of the Aldi and Lidl shoppers are concentrated in Germany. (See Charts 10 and 11)

Analysed individually, Aldi and Lidl stores emphasize this feature even more. Looking at data across 66,000 households (using Nielsen's proprietary Hard Discounter research method) for each household during each shopping trip indicates that Aldi's conservative approach to market expansion has resulted in a comparatively lower penetration in large markets like France and the UK. The number of shoppers it attracts per store however is similar to Lidl and this may be indicative of latent demand that has the potential to be tapped in the future. (See Charts 12 and 13)



Chart 10

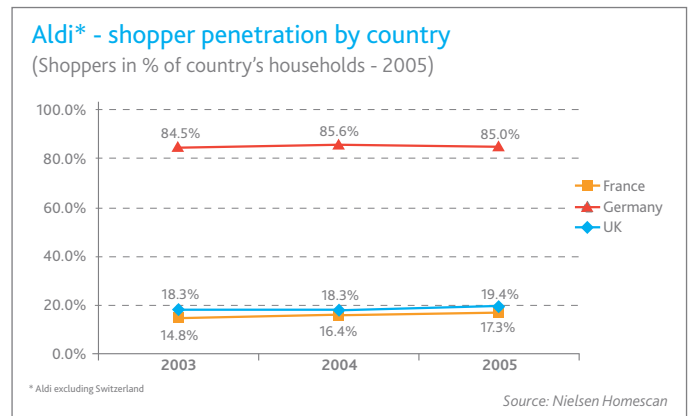


Chart 12

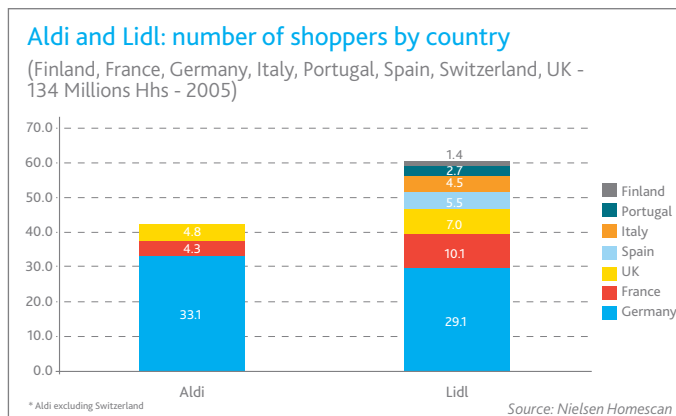


Chart 11

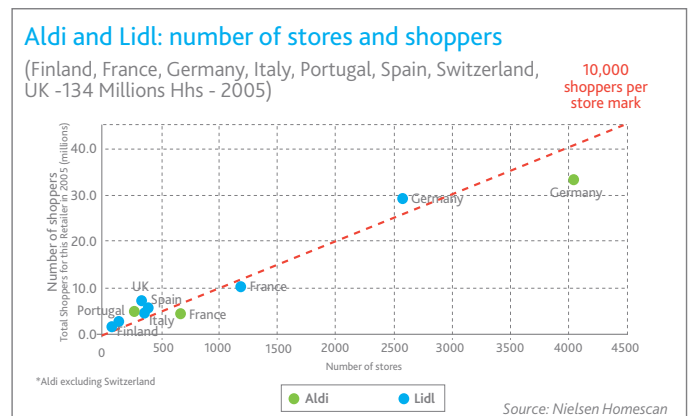


Chart 13

Lidl on the other hand, has employed its wider network of stores to effectively penetrate the geographies it is present in. An analysis of shoppers in each country indicates that Lidl has managed to attract 74% of Portuguese shoppers, 60% of Finnish shoppers and nearly 40% of French shoppers. These numbers are proof that the discounter concept has taken root firmly across very different cultures and shoppers. (See Chart 14)

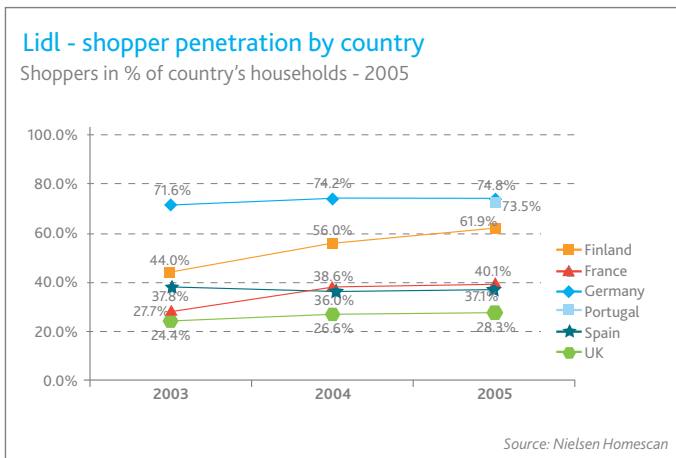


Chart 14

Yet, there are no simple answers to what works best. Even with the discount format becoming a widely known option in the retailing environment, its popularity differs across markets. In Aldi's case, shopper buying behaviour displays wide fluctuations in the value and frequency of shopping trips. In Germany for instance, Aldi's shoppers spend an average of 544 Euros per year and visit Aldi stores at least twice each month. In France and the UK however, Aldi's shoppers spend much less within Aldi stores and only visit 10 times a year. (See Chart 15)



Chart 15

Lidl's shoppers on the other hand seem more consistent regardless of geography. Lidl's German shoppers spend an average of 356 Euros within its stores and visit them 19 times annually. This makes them very similar to Lidl shoppers who visit Lidl with the same frequency in countries like Finland, France and Portugal. These numbers suggest that Lidl has managed to become an ingrained part of the shopping populace's purchase routine and not an occasional occurrence. (See Chart 16).

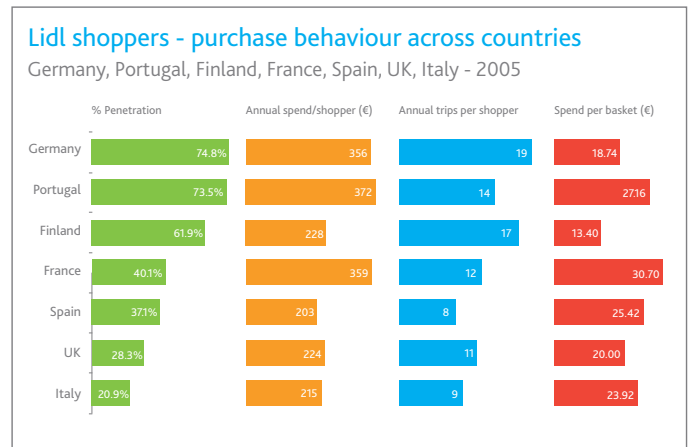


Chart 16

These observations offer interesting cues to approaching the hard discount phenomenon. By taking the shopper perspective, it becomes clear that there are larger strategic themes that are dictated by the plans and action of each discount giant. But that these themes are being propelled forward by real changes in shopper behaviour during the shopping trip. It is these cues that, if studied more closely, can help divine the future of retailing in Europe.



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insights I can act on
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