consumer insight

Shoppers Count on the Discounters

Inflation Hits Hard

The UK is in a period of uncertain economic times, with a stagnant housing market, inflation due to rising food and fuel costs and an end to the days of cheap borrowing.

This month CPI inflation hit an eleven year high at 3.8% which has only added to the woes of UK industry. The Bank of England confirmed that the "NICE decade" (Non Inflationary Continuous Expansion) is truly over. And consumers are really feeling the pinch. In June the Nielsen BRC Shop Price Index tracked food inflation at 7% YoY which represents a step change in price rises and is contributing to changing shopping dynamics in the UK grocery market. We should expect price to continue to be important for the foreseeable future with evidence that UK consumers are questioning their spending.

We know that consumers cut back on grocery spending when money becomes tighter. In the a recent Nielsen survey, (April 2008) over three quarters of consumers admitted to saving pennies when buying groceries. This has shifted from 45% in October 2007 signifying consumers growing need to tighten their belts. This will encourage even more consumers' to review their shopping bills, putting the discounters in a stronger position.

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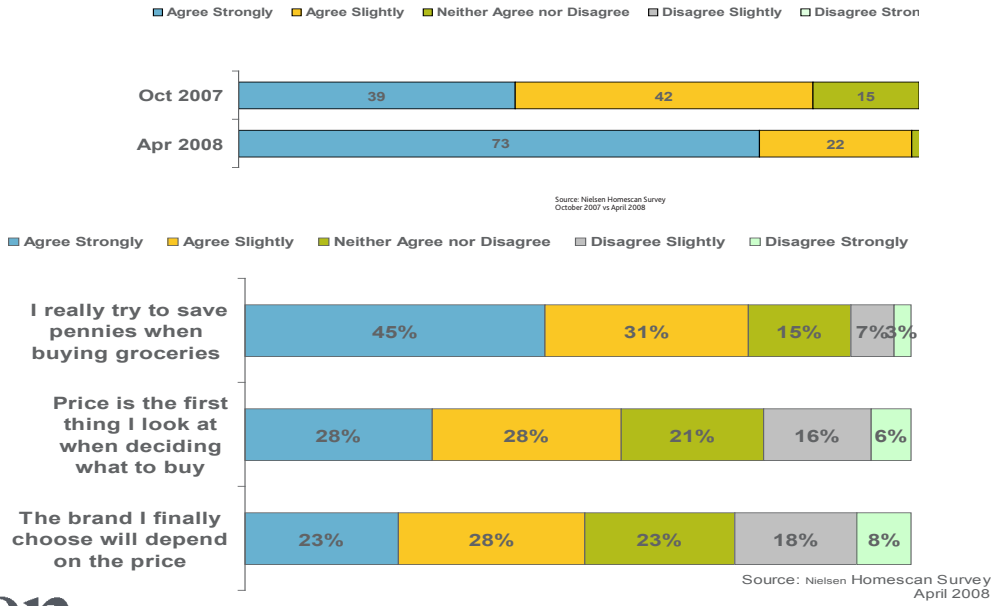
"I feel prices in the Grocery store have gone up recently".



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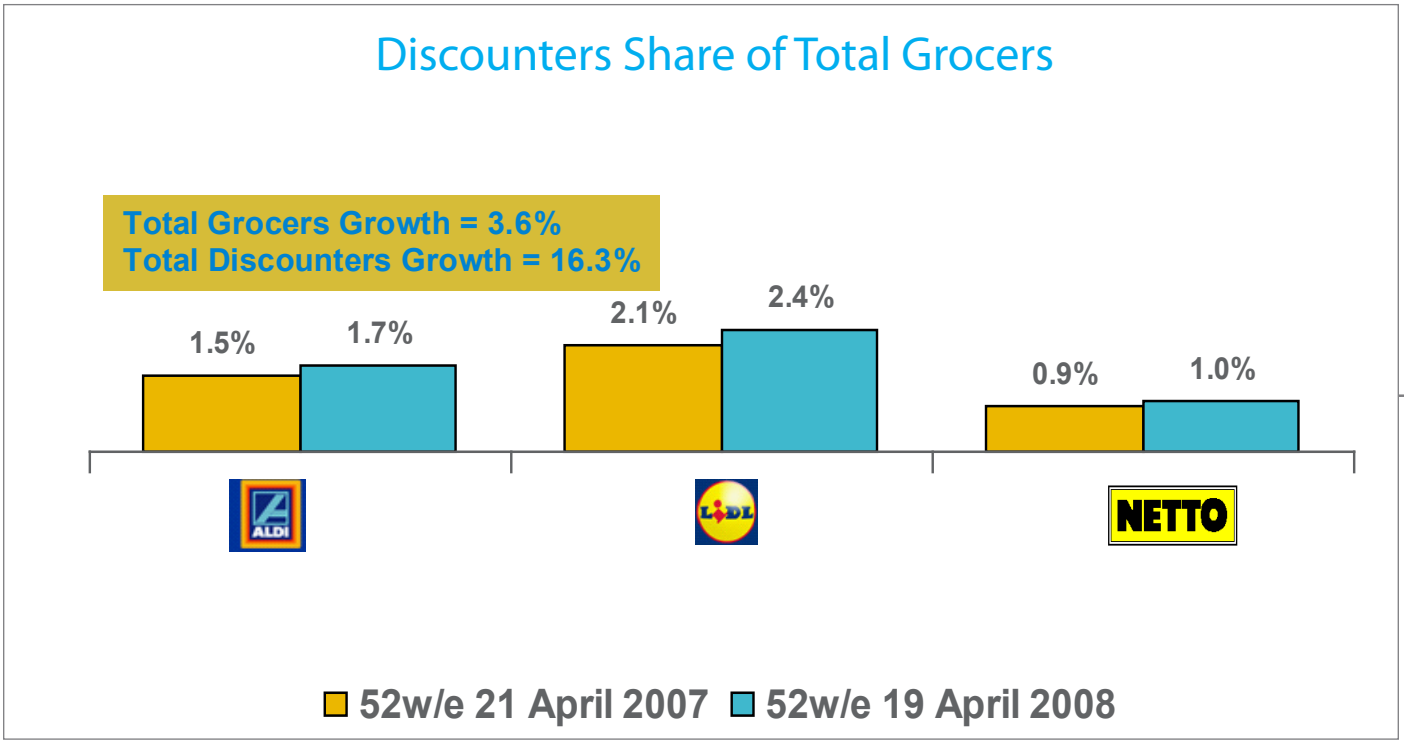
Discounter Roots in Europe

Discounters in Europe operate under many different fascias and represent around 17% market share compared to the UK where share is just over 5%. This varies enormously by country. In Germany, discounters have around 40% market share and Aldi in particular is very successful here. Across Europe, Aldi has a more concentrated range (on average 7 items per category), is largely private label and offers deeper discounts where as Lidl offers a wider range; on average across Europe Lidl offers around 13 items per category. Overall though, all discounters operate on the same principles – they carry a much smaller category assortment and use the limited product ranges to ensure streamlined operations, efficient sourcing and better shelf utilization. Suppliers produce for Aldi in huge volumes for single SKUs and as a result, great economies of scale are extracted. This creates tremendous cost savings that enable low prices to be passed onto consumers. This way of working does not affect product quality and overall, the quality of discounter products is considered as very good.

Both Aldi and Lidl have expanded through store openings.

Aldi had doubled it's presence across Europe in the last 15 years and operates in 14 countries and Lidl has increased store

numbers 4 fold, opening a store at the rate of one per day over the last 15 years. Lidl operates in 23 countries across Europe. The discount grocery store format is well accepted and understood in other European countries and particularly in Northern Europe, shopping at discounters is seen by consumers as an intelligent choice - why pay more?



Growth of Discounters in the UK

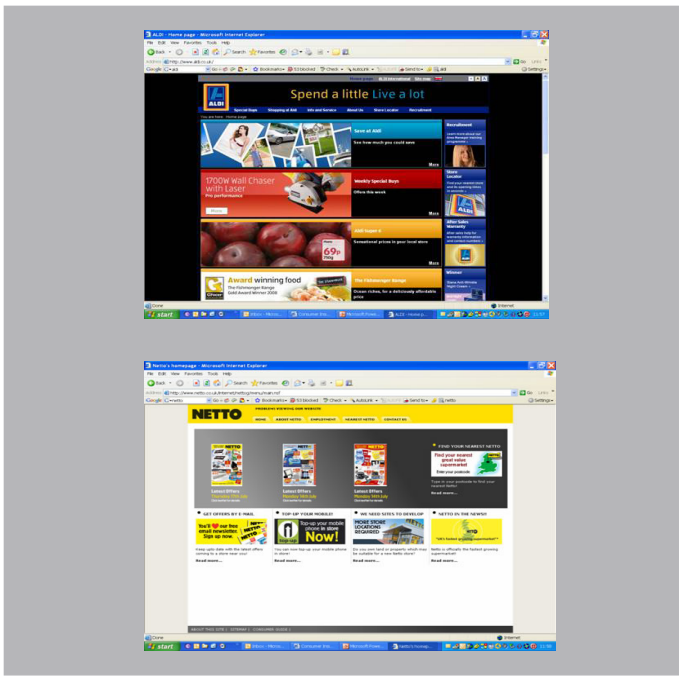
Total discounters are beginning to have scale, with their share of trade gradually increasing to 5.1% (Source: Nielsen Homescan 52 we 19th April 2008). When compared to Co-op with 6.1%, Somerfield 3.7% and Waitrose 3.7%, they are a presence that shouldn't be ignored.

More consumers than ever are prepared to try this format of grocery shopping. Historically discounters were poor sites with a limited range, appealing to less affluent households, but this has began to change.

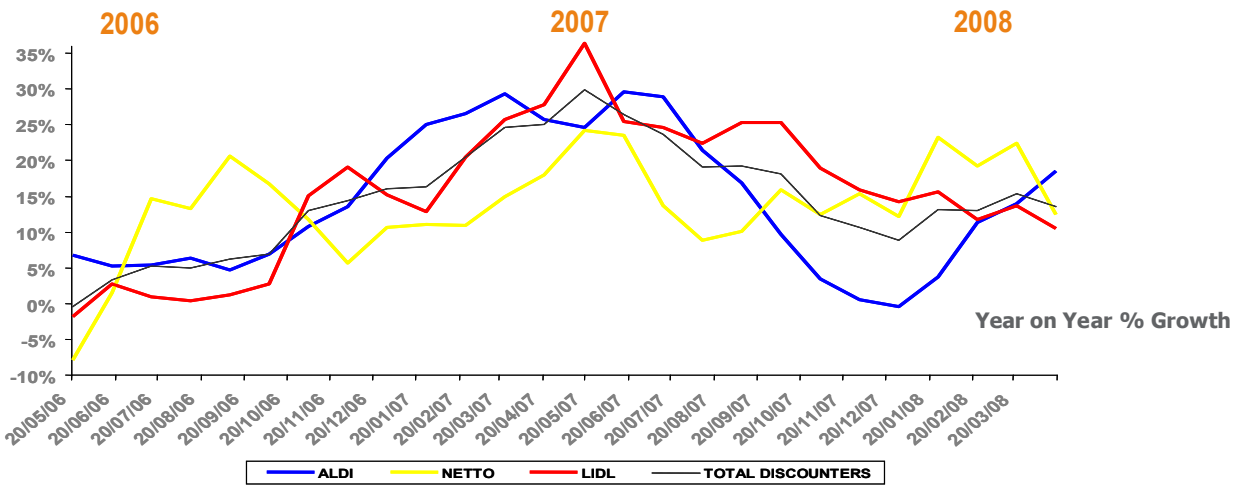
Whilst the discounters have traditionally appealed to low income families, the depths of ranges that are now available in store are reaching out to a much wider demographic. However store equity is still relatively low in the UK compared to Europe, (Source: Shopper Trends 2007) but the discounters are changing attitudes through improved store environment, ranges, quality and in the case of Aldi through sustained messaging communicating food quality at good prices.

Interest in the discounters' websites increased significantly in the months from March – May 2008 with Nielsen Online reporting that unique visits increased over 35% YoY to nearly ½ million. Aldi and Lidl took the 4th and 5th spot in terms of unique visitors to their websites after the top 3 retailers. This indicates that more shoppers are curious about these retailers and are searching for information about them.

Nielsen Online research also identifies that within consumer generated media such as blogs and online review sites the general 'buzz' surrounding discounters indicates that whilst some continental products may require experimentation, they are worth trailing for the cost savings to be gained.



Since late 2006, Discounters have seen strong growth, with the highest ever achieved by Lidl in May 2007 of +36.4%. Aldi had a good 1st half of 2007 but growths dipped in the second half. They are working hard to rectify this with good growths into 2008.



Source: Nielsen Homescan Total Purchasing.
12 week ending periods to 19th April 2008

Aldi

Aldi has 366 stores with 1.7% market share in Great Britain. The retailer is opening around 50 stores per year, with an ongoing up-grade programme of older sites to create more modern and attractive store environments.

From 2002 to 2007 Aldi increased the proportion of ABC1 households visiting their stores from 41% to 50%. Household penetration is also increasing with 29% of households shopping in an Aldi store over the last year. (Source: Nielsen Homescan 52 we 19th April 2008)

Shoppers are being enticed by better ranges including Aldi's Specially Selected range, (which has won the highly coveted 'Quality Food Award' – most notably the Specially Selected Stone Baked Romagna Pizza which won a gold award), more chilled foods, the healthier 'Be Light, Be Healthy range' and a very strong non-food offering. Another high profile initiative is the television advertised 'Super 6' promotions which quite simply offers 6 selected fruit and vegetables at one price point of 49p, 59p or 69p. This is working hard to drive footfall into store. Shoppers are beginning to recognise the value of the Aldi offering at a time when the consumer is extremely price aware.

Aldi have no plans to go extensively branded with around 94% own label presence in store. They are trialing credit cards at selected stores. If this is rolled out, Aldi would be the first of the discounters to offer this service.

Lidl

Lidl are still the largest of the discounters with approximately 430 stores in Great Britain and a market share of 2.4%, with similar expansion plans to Aldi.

Lidl introduced key manufacturer brands in 2007, widening the appeal of their offer, although they do still range many continental products. They have a greater penetration than Aldi with 35% of main household shoppers visiting a Lidl in the past year; this can partly be attributed to their store numbers. (Source: Nielsen Homescan 52 we 19th April 2008)

Lidl remain the most aggressive on pricing, in general having the lowest prices of the 3 discounters in Britain. However the Lidl store environment has not developed as well as Aldi over the last 5 years – The Nielsen Shopper Trends study (2007) reported that shoppers felt that the Lidl 'Image is not as good'. Like Aldi, Lidl have an extensive non-food offer which is supported by television and press advertising.

Netto

Netto have limited national coverage which naturally curbs their progress. Netto has the lowest market share of 1% and 182 stores but this retailer is growing at the fastest rate of +19.5% YoY (Source: Nielsen Homescan 52 we 19th April 2008).

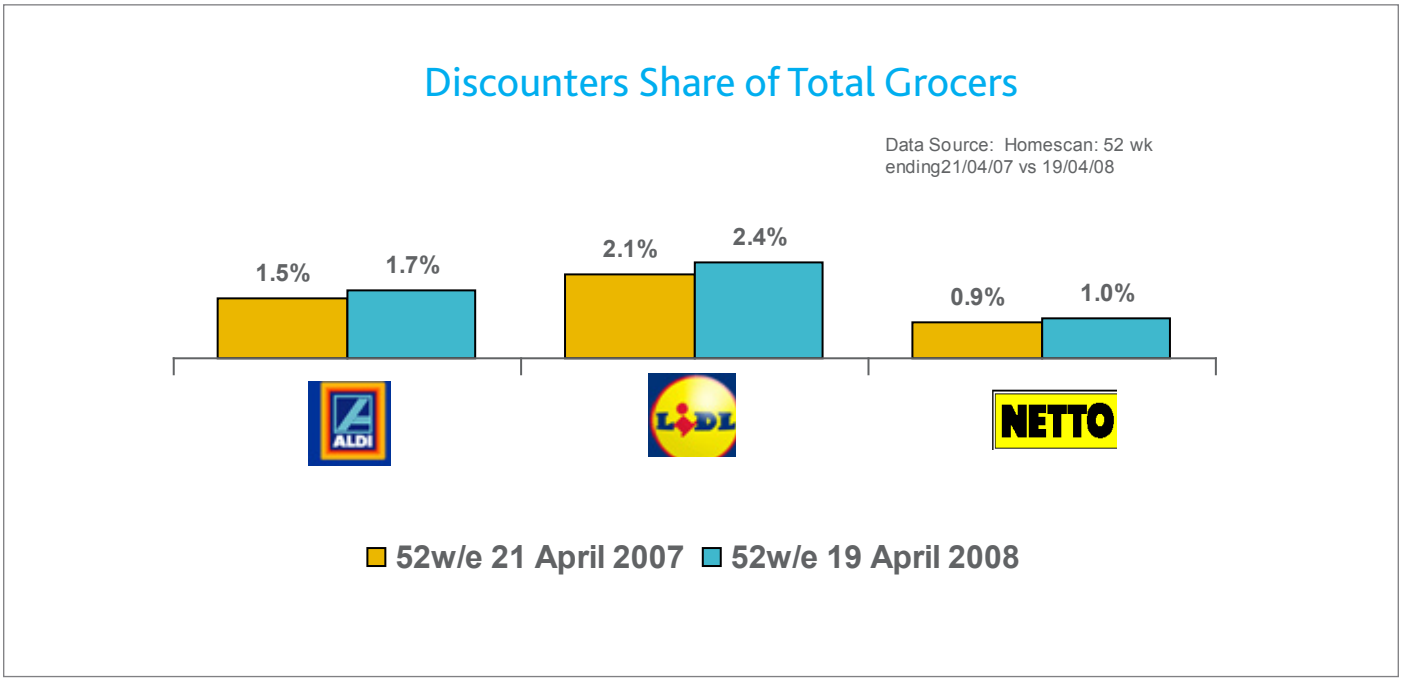
Netto are aiming to shift their image from a discounter to a value supermarket. The range is larger than a typical discounter – up to 1400 skus compared to around 900 in the other fascias. Netto also stock around 300 branded products.

They hope to steal from retailers such as Asda and Tesco but also the Independents, Symbols and Co-op. They have a reliance on local marketing including free sheets and word of mouth.

The discounters are luring basket spend from all of the larger retailers. Average basket spend is around £15 compared to the Co-op at £11 and increasingly we are seeing that discounters are not just being used as a top up shop. However, due to the limited range, shoppers still find it difficult to complete a full shop in store, so we should expect to see further range developments.

Growth in the discounters is expected to continue, not only fuelled by worries about the economy but through offering consumers more of what they want in terms of healthier, more upmarket ranges and better store environments.

The challenge will be to bring new shoppers into the format but with a troubled economic climate this could well be the time for the discounters!



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