

RESEARCH REPORT 2016

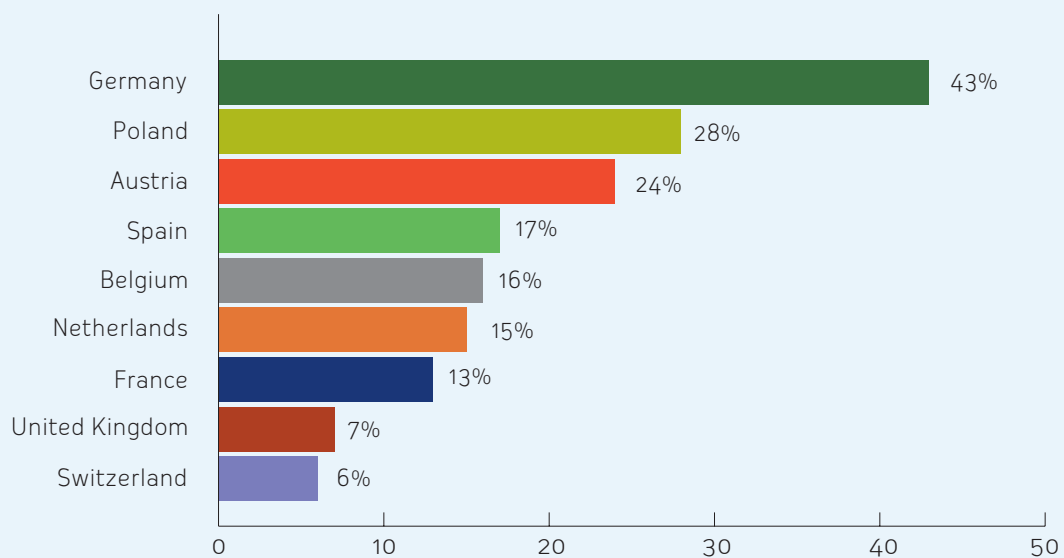


Retaining Consumers Tempted by the Discount Model

How mainstream retailers in Europe respond to the discount retail phenomenon



DISCOUNTER MARKET SHARES



Introduction

In most countries, we are seeing the continual growth of the discount format. This retail format successfully competes on price, quality, consistency and simplicity. Discount retailers excel in minimising the quality gap and maximising the price gap with the national brands they compete with. Mainstream retailers have tried to keep shoppers in their stores by offering low-priced products in no-frills packaging. However, this strategy has failed dramatically.

RESEARCH OBJECTIVE

In an effort to identify the most effective strategy to counterbalance discount retailers like Aldi and Lidl IPLC conducted extensive research in both 2014 and February 2016 into the private label architecture of mainstream retailers in nine EU countries (for methodology we refer to details at the end of this document). Comparisons were made between the basket value-indices of the national brand private label equivalent, the budget private label and the Lidl private label against the national brand within the mainstream retailer in nine EU markets.

Findings

PRICE

The table below shows the results for each on the nine countries chosen. In 2014 IPLC conducted similar research in six of these countries. The results from this earlier research are shown in brackets to aid comparison. The average price of the private label equivalent of the national brand is 33% lower than the national brand (32% in 2014). The average price of budget private label is 62% lower than the national brand (61% in 2014), whereas the average price of the private label in Lidl is 54% lower than the national brand (53% in 2014). It is also interesting to note that all the percentages in 2016 were 1% lower than the 2014 survey indicating perhaps a more aggressive position on prices for Private Label or Brands trying to increase prices.

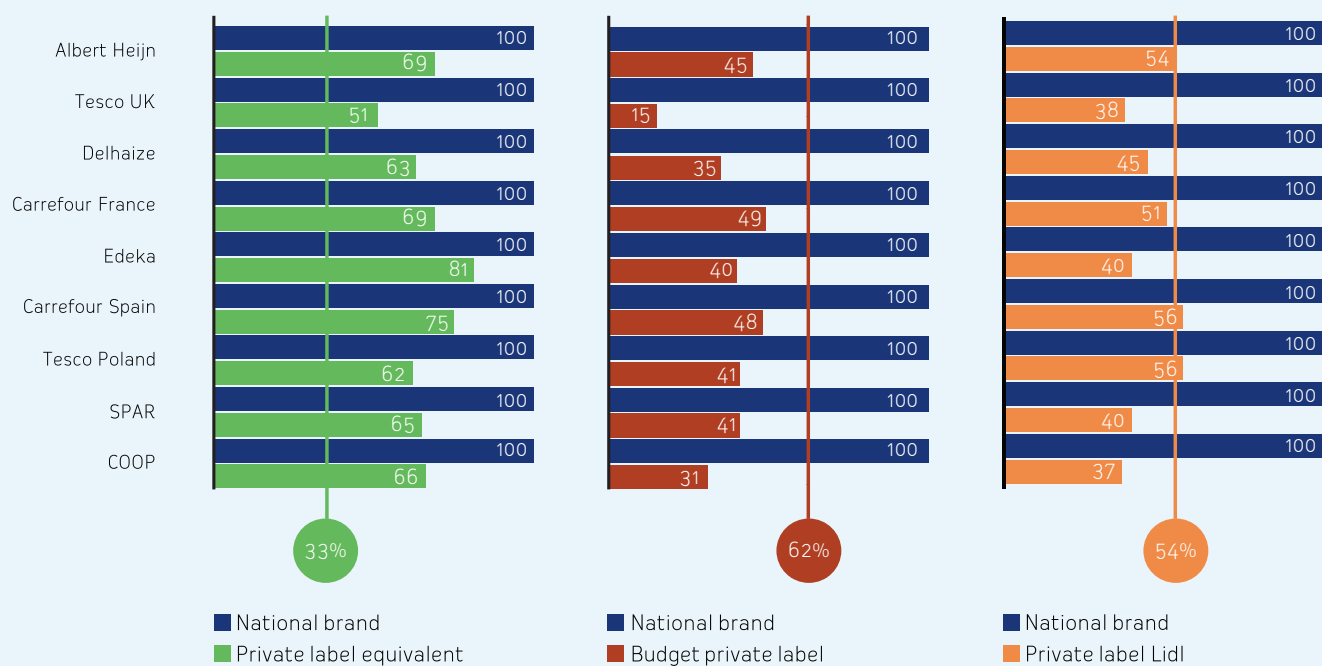
PRICE INDEXES OF NATIONAL BRAND AND PRIVATE LABEL IN MAINSTREAM RETAILERS AND LIDL

Retailer	Country	National Brand	Private label equivalent of national brand	Budget private label	Private label Lidl
Albert Heijn	The Netherlands	100	69	45	54
Tesco	United Kingdom	100	51	15	38
Delhaize	Belgium	100	63	35	45
Carrefour	France	100	69	49	51
Edeka	Germany	100	81	40	40
Carrefour	Spain	100	75	48	56
Tesco	Poland	100	62	41	56
SPAR	Austria	100	65	41	40
COOP	Switzerland	100	66	31	37
	Average	100	67	38	46

Reading example: average price of Delhaize private label equivalent of national brand is 37% lower than the national brand.



AVERAGE PRICE INDEX OF PRIVATE LABEL VS. NATIONAL BRAND



Findings

QUALITY

In addition to the price comparison, a quality comparison of several budget private label products was made solely based on visual observation (ingredient list and quality of packaging) and not by organoleptic evaluation. In many cases the budget private label of the mainstream retailer appeared to be of a lower quality than the Lidl product

To highlight a few examples: fewer tomatoes in ketchup, lower grade of chips or cornflakes, a lower percentage of hazelnuts in chocolate spread or fruit content in jam. Soft wheat flour instead of durum wheat for penne pasta and an inferior raw material for cat litter. Some products like curry sauce and tomato ketchup even had water as the main ingredient.

PACKAGING

Mainstream retailers seem to be eager to communicate the value message for their budget private labels. They use no-frills packaging with simple photography or graphics to reduce costs. The packaging is also kept simple, as examples no ring-pull for some canned vegetables, limited use of colour and no-drip cap for ketchup.

QUALITY COMPARISON BASED ON VISUAL OBSERVATION

	NATIONAL BRAND	LIDL	BUDGET PRIVATE LABEL
Fruit Muesli	45% fruit	50% fruit	7-10% fruit
Pasta Penne	Durum Wheat Semolina	Durum Wheat Semolina	Soft Wheat Semolina
Tomato ketchup	148g tomato / 1 00g k	185g tomato / 100g k	81g tomato / 100g k
Cornflakes	Traditional flakes	Traditional flakes	Extruded flakes
Fruit biscuits	Sultanas/Raisins 31% / 6%	Sultanas/Raisins 31% / 6%	Sultanas/Raisins 20% / 7%
Hazelnut spread	13% Hazelnut	13% Hazelnut	1,5 - 2% Hazelnut
Chips	Long fries few defects	Long fries few defects	Short fries more defects
Cat litter	Bentonite clay	White bentonite clay	Attapulgate

Conclusions

Over the past two years the average price difference between the private label equivalent of the national brand (33%), the budget private label (62%) and Lidl (54%) compared to the national brand has remained almost the same.

With the exception of Edeka and SPAR, mainstream retailers price their budget private label below the Lidl level. It seems important to them to beat discount retailers on price. The average price of Tesco's budget private label 'Everyday Value' in the United Kingdom is a staggering 85% lower than the average price of the branded product on the products in the survey.

However, product quality shows a different picture. For all products included in the research, the quality of Lidl products appeared to be the same or better than that of the national brand. This was not the case for budget private labels offered by the various mainstream retailers, again with the exception of Edeka and SPAR.

The same holds true for packaging for which with the exception of Edeka, a no-frills approach is chosen.

Over the past few years discount retailers in Europe have accelerated their growth. Notably in the United Kingdom Aldi and Lidl are doing well and have shown a 20 to 30 per cent market share increase per annum over the past three years. Their market share has increased from 5.5% in 2010 to the current 10% (source: Kantar Worldpanel).



In 2014 the budget label Carrefour Discount was relaunched by taking the Carrefour name and logo off the packaging

Like Aldi Lentil stew (800g). The Edeka Gut & Günstig brand contains 6% pork meat (price €0,85, same as Aldi). The Edeka brand contains 8% ham and has a printed lid with easy opening ring pull (price €1,49)

With Allerslimste Koop, Dutch retailer Jumbo offers a range of products at the same price and quality as Lidl

Recommendations

Mainstream retailers in Europe believed they would reduce the risk of losing shoppers by offering budget private labels. However, this is no longer an adequate answer. What may have been sufficient in the past is now outdated by harsh reality.

Negative effects resulting from this strategy cannot be excluded:

1. Budget private labels generate lower margins to retailers than national brand equivalent private labels. By offering budget private labels, category profitability may erode due to cannibalising effects if shoppers buy the cheaper budget label instead of more profitable alternatives (trading down).
2. Most mainstream retailers used the store banner brand to endorse their budget private labels. However, if product quality is perceived as being lower and results in dissatisfaction it may have a negative impact on overall shopper trust in the retail brand.

In view of the above IPLC have observed four interesting initiatives at EU retailers regarding their budget private label strategy:

1. In 2014 Carrefour decided to relaunch its budget private label Carrefour Discount. The Carrefour name and logo were removed from the packaging, effectively distancing the discount products from the store banner.
2. In 2015 Albert Heijn withdrew most of its AH Basic budget private label from the chilled convenience sector. AH Basic products were replaced by fancy labels not referring to the store banner, or by the AH national brand equivalent private label of better quality.
3. Edeka's budget private label line 'Gut & Günstig' (good and attractively priced) unconditionally offers the same price and quality as benchmark discounter Aldi. Moreover, the Gut und Günstig packaging design was upgraded. In addition to this value-added products were made available under the national brand equivalent private label Edeka. These products are priced higher than usual (price gap with brands 19% as opposed to the EU average of 33%).

4. Although not included in our research we noticed that Jumbo Supermarkets in the Netherlands launched its 'Allerslimste Koop' (Smartest Buy) assortment. These are products of similar quality to the national brand and the national brand equivalent private labels. While maintaining the same quality packaging, the price of 'Allerslimste Koop' products was reduced to Lidl level. Just by printing a banner on the packaging the products became visible as a separate line within the standard Jumbo private label range to the shoppers.

The last two initiatives demonstrate that retailers are taking serious action to discourage the drain-away of shoppers to discounters.

We believe that budget private labels within the classical three-tiered private label architecture will ultimately disappear for two reasons. Firstly, shoppers cannot be fooled with products of eroded quality at low prices when they can get both low prices and good quality at discount retailers. Secondly, retailers must understand that offering poor quality products under their store banner brand will harm consumer trust in their brand.



Methodology

In February 2016 (1) IPLC conducted store checks in nine EU countries (2) to calculate the average price index of a range of products. In preparation for the store checks a representative basket of products (3) was put together of which the price (4) and pack size (5) by product were registered during field research. By country both a mainstream retailer (6) and Lidl (7) were included in the research. Of each mainstream retailer, data was gathered on the national brand product, the private label equivalent (8) and the respective budget private label (9). At Lidl data was registered on the private label equivalent of the national brand.

1. Two years ago from week 52 in 2013 to week 3 in 2014 IPLC conducted a similar research in 6 EU countries.
2. Germany, France, Spain, The Netherlands, Belgium, United Kingdom, Switzerland, Austria and Poland.
3. The basket included 35 different products taken from categories such as shelf stable and frozen foods as well as personal care, household cleaning and paper products. The composition of the basket content was not identical by country due to differing consumer preferences. However, the balanced total remained representative to allow for a fair comparison. The indices do not allow for a cross-country comparison.
4. Only regular prices were used for the survey, no promotion prices. It should be noted that if promotion prices had been used and the research been extended over a full year, the price indexes could be different.
5. Where possible same packaging formats were selected. In some instances the shape (i.e. bag, jar, bottle, box) or features (i.e. ring pull, flip-cap, easy opening) were disregarded.
6. Edeka (Germany), Carrefour (France), Carrefour (Spain), Albert Heijn (the Netherlands), Delhaize (Belgium), Tesco (United Kingdom), COOP (Switzerland), SPAR (Austria) and Tesco (Poland).
7. Although Aldi Süd is taken as the discount retailer benchmark in Germany we opted to take Lidl as the European benchmark as this discounter is present in all countries included in the research. Lidl centrally coordinates its base assortment (on which our research focused), resulting in the same quality in all countries. Therefore, it can be considered as the price- and quality setting discounter on a European scale.
8. Match of the national brand carrying the store banner brand: Edeka (Germany), Delhaize (Belgium), AH (The Netherlands), Tesco (United Kingdom, Poland), Carrefour (France, Spain), SPAR (Austria), COOP (Switzerland).
9. Gut&Günstig (Edeka), 365 (Delhaize), AH Basic (Albert Heijn), Everyday Value (Tesco), Prix Garantie (COOP), S Budget (SPAR).

Disclaimer

Data was gathered by means of physical store checks and additional internet search. Although research and analysis was conducted with great care, the results should be considered indicative as only a limited number of products by label were evaluated. However, we believe that the conclusions drawn from our research should be considered representative.

About IPLC

IPLC is a boutique consulting firm specialised in strategic consultancy services and project management support to manufacturers and retailers. With a critical understanding of the European private label industry we help our clients with a pragmatic and action-oriented approach. Founded in 2003, IPLC has been involved in many international assignments of manufacturers, retailers and the supply industry. We operate from our offices in the Netherlands, Germany and France.

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