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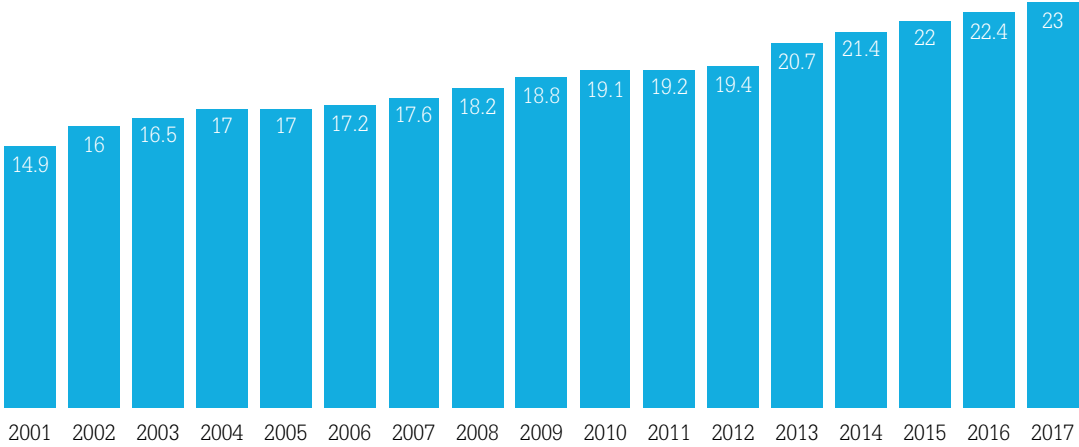
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Evolution of total value market share of discount retailers in Europe



Based on data from Nielsen Retail Measurement Services (Europe includes: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, Ireland, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, Hungary and Poland.)

longer appeared to be adequate in counterbalancing discount retailers.

Position of value private label in the architecture

Research by IPLC in 2016,<sup>(3)</sup> identified effective strategies to counterbalance discount retailers. The price and quality strategy within the private label architecture of a few mainstream retailers in the European retail market was analysed. The study revealed that retailers in the EU aggressively respond to hard discount on price. In each out of nine countries included in the study, the value private label of the mainstream retailer was priced up to 40 percent cheaper (on the average 8 percent) than the price level measured at Lidl in the respective country. It seemed important to them to beat discount retailers on price.

Average price indexes of value private labels in mainstream retailers and Lidl (vs. national brand = 100)

(price index versus the national brand)

Retailer	Country	Value private label	Private label Lidl
Albert Heijn	The Netherlands	45	54
Tesco	United Kingdom	15	38
Delhaize	Belgium	35	45
Carrefour	France	49	51
Edeka	Germany	40	40
Carrefour	Spain	48	56
Tesco	Poland	41	56
SPAR	Austria	41	40
COOP	Switzerland	31	37
	Average	38	46

Based on IPLC research 2016

Furthermore, the study included a product quality comparison. Of all products examined, the quality of Lidl products was the same or better than that of the national brand. This was not the case for value private labels offered by the various mainstream retailers. In many cases the value private label of the mainstream retailer was of a lower quality than the Lidl product. To highlight a few examples: a lower fruit content in strawberry jam, a lower percentage of hazelnuts in chocolate spread or a lower fruit content in natural muesli. Chapter 5 covers this topic in further detail.

In addition, mainstream retailers seemed to be eager to communicate the value message for their value private labels. They used no-frills packaging with plain photography or graphic design to reduce costs. Packaging was also kept simple, for example the lack of a ring-pull for some canned vegetables, the limited use of colour or ketchup bottles without a drip-cap. The research concluded that although the price of value private labels was lower than that at discount retailers, the quality had been eroded to achieve this.

Mainstream retailers in Europe believed they could reduce the risk of losing shoppers to discount retailers by offering value private labels. However, it turned out that this response was no longer adequate. What seemed to be sufficient in the past appeared to be outdated by harsh reality.

More importantly, negative effects resulting from this strategy could not be excluded. Firstly, value private labels generate lower margins to retailers than national brand equivalent private labels. By offering value private labels, category profitability was eroded due to cannibalising effects if shoppers



Jam containing 50% fruit and hazelnut spread containing 13% hazelnut. In nearly every instance, the product quality of Lidl outperformed that of value private labels offered by mainstream retailers

bought the cheaper value label instead of the more profitable alternatives (trading down). Secondly, most mainstream retailers used the store banner brand to endorse their value private labels. If product quality was actually perceived as being lower this could result in dissatisfaction and have a negative impact on shopper trust in the retailer brand.

Disruptive strategies

For this reason mainstream retailers began to re-think their strategy as they discovered that by offering products of a different quality at even lower prices they could not effectively counterbalance discount retailers.

Across Europe, mainstream retailers responded to the success of discount retailers by means of different strategies. Value private labels were upgraded in quality to replace the standard tier or

Retailers are arguably best positioned to take advantage of the free-from trend through private label innovation. However, when interviewed, retailers felt this should not be a premium priced category but manufacturers highlighted the additional costs around both production and verification of ‘free-from’ drive higher costs.<sup>(30)</sup>

Not only do lifestyleers believe that eliminating gluten and dairy is good for general health, public awareness of food allergies, intolerances and sensitivities has also increased. The increase in the number of children being diagnosed with coeliac disease often causes entire families to move to a gluten-free lifestyle.

**Eco-friendly**

‘Eco-friendly’ as a theme for private label is and will remain relatively small as only non-food products qualify for this segment. This category consists predominantly of household cleaning and personal care products. However, making ‘eco-friendly’ visible under its store banner brand helps the retailer to demonstrate its environmental credentials. As store image perception plays an important role in building shopper loyalty, more retailers are expected to take initiatives in the eco-friendly private label segment.

In the Nordic countries of Denmark, Sweden, Norway and Finland, ‘eco-friendly’ as a consumer interest theme for private label has matured and become mainstream. A majority of eco-labelled products carry the Nordic Swan label, a government-controlled environmental label. In addition to this, various specific retailer-owned labels can be found in Nordic supermarkets such as: Ånglamark in COOP stores, SKONA in ICA, SÅKLART in Axfood or Grön Balance in Dagrofa.



Eco-friendly cleaning line at Jumbo in the Netherlands

It seems that retailers in the Nordic countries are well ahead of the rest of Europe and are inspiring retailers in other EU markets. In the Netherlands, Belgium and France, a relatively large offer of eco-friendly products in food retailers is available. In Germany, eco-labelled products are chiefly offered by drugstores although Edeka and Rewe are now also joining the game.

Sustainable food such as organic and fair trade products and MSC fish is already offered under private label. Expanding the offer to sustainable household and personal care products seems like a natural next step to respond to shopper interest.

**Regional**

Both France and Italy have a rich gastronomic tradition and retailers in these countries have taken initiatives to address both sustainability and authenticity by launching regional private labels to cultivate authentic and refined flavours.

**Eco-friendly in the Nordics**

The Nordic Swan eco label was established in 1989 by the Nordic Council of Ministers as a voluntary eco-labelling scheme for the Nordic countries of Denmark, Finland, Iceland, Norway and Sweden. Ånglamark is a brand for sustainable products and stands for environmentally friendly, allergy friendly and organic. Products under the Ånglamark brand are sourced and designed by Coop Trading.

Regional private labels are in most cases the equivalent of what retailers in other countries offer as premium private labels. They are produced according to an authentic recipe or production method and must be made in the region of origin and respecting the original recipe while using ingredients of the region or country. Some products were discontinued in the past because they lacked legitimacy if raw materials (such as honey) were unavailable or in insufficient quantity.

The first retailer to address sustainability with a specific private label was Promodès in France in 1997. Inspired by the Slow Food movement, Promodès launched a range of regional products under its Reflets de France private label. With its initiative, Promodès aimed to prevent traditional local French products from disappearing or to reintroduce products that had vanished or had been forgotten.

Carrefour that took over Promodès in 1999 continued the work. The years thereafter the initiative has

been followed by many other retailers in France and beyond. With retailer-owned brand names like Nos Régions ont du Talent (Leclerc), Ça Vient d’ici (Casino), Itineraire Des Saveurs (Intermarché) and Saveurs de nos Régions (Lidl) consumers are offered the opportunity to discover or rediscover regional and authentic products. Simultaneously, the individual products are unique and support the retailer to drive shopper loyalty.

Another reason why regional products have emerged under private label was the public debate surrounding the position of power of the retailers. The small manufacturers that supplied products under their own brand depended too much on the retailers and the relationship turned out to be one-sided. However, by combining the knowledge and experience of both parties, a situation arose that proved attractive to both sides and led to a



The regional private label of Italian retail Unes IL Viaggiatore Goloso

05

Super-marketification of discount retail

By Robertus Lombert

A discount retailer is a store format that sells products at prices lower than the typical market value. It has a limited assortment of goods with a focus on price rather than on a wide choice or service. The products are predominantly offered under private label. The aim of discount retailers is to make basic goods of daily need available at the lowest possible price, while maintaining high-quality standards. Therefore, all attention and resources are allocated to achieve this strategic objective.

Today, discount retailers represent 23 percent of the European retail market with Lidl and Aldi being the Europe's largest players in terms of sales.<sup>1)</sup> They have forced competitors to rethink their strategies, to consider a merge (Sainsbury's and Asda) or even to open their own discount format (Jack's by Tesco).

Why are they so successful, how do they operate and what is meant by the so-called 'supermarketification' of discounters? These are just a few questions we shall seek to address in this chapter.

The amazing success of discounters

In 2018, discount retailers were the number one (Lidl) and number two (Aldi North and Süd together) retailers in Europe in terms of turnover and were present in almost every European country, the US (Lidl and Aldi) and Australia (Aldi). Not only are they the largest retailers at this moment but according to LZ Retailytics they will continue to even further strengthen their position by growing faster than any of their main competitors.<sup>2)</sup>

What lies at the basis of the success of discounters is a limited assortment of SKUs offered under private label at extremely low prices. Consumers learned

to appreciate the restricted offer of good-quality products, even more so as a reduced choice made the shopping experience less stressful. At the same time, a sense of smart shopping was created under the motto 'Although I could pay more, why should I pay more?'. This, combined with a repeatedly changed offer by means of in-out promotions in both food and non-food SKUs, enabled discounters to create a unique concept within the retail industry.

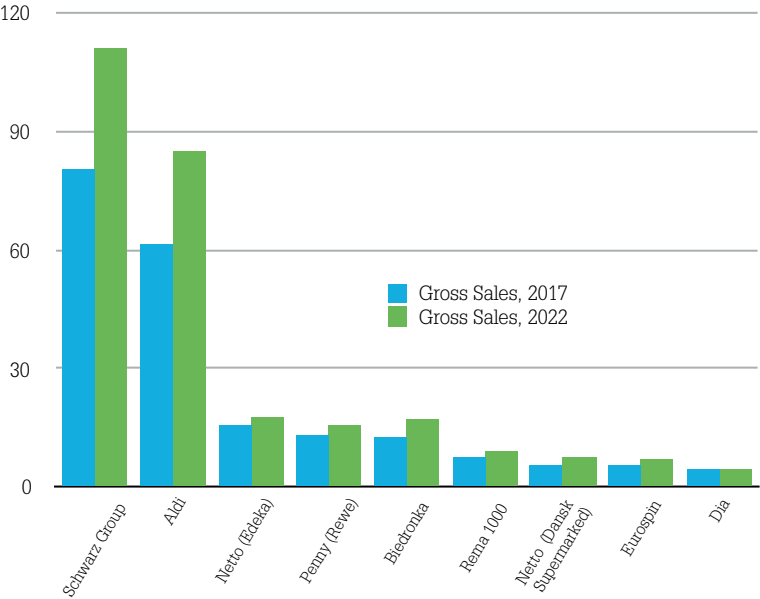
Not only did competing retailers lose market share, but due to a downward pressure on prices they also lost a significant part of their margins. Taking a closer look at the UK market, for example, the devastating effect of discount retailers becomes clear. In only five years time the combined value market share of Aldi and Lidl almost doubled (from seven percent in November 2013 to 13.2 percent in December 2018).<sup>3)</sup> In the same period, the

combined market share of Tesco, Sainsbury's, Asda and Morrisons fell from a peak of 77 percent to 69 percent. Taking the significantly lower prices of discount retailers into consideration, the volume market share loss of the 'big four' to Aldi and Lidl is even more dramatic.

These so-called big four retailers responded by substantial range and price reductions, an expanded private label offer and a reduction of the number of suppliers (see Chapter 2). However, all this failed to curb further discounter growth. The next step for Tesco was to open its own discount format, Jack's, while Asda and Sainsbury's announced an intended merger.<sup>4)</sup>

As Lidl and Aldi sell far more private label than branded products, the growth of market share of the discount retailers implied a loss of market

Market share by discount retailer



Source: LZ Retailytics

# 06

## Building shopper loyalty to the store

The growth of private label market shares has not only been impressive over the years but has also changed the competitive dynamics of the markets in which they operate. In a large number of countries only a few retailers now dominate the market and in view of the increased competition, building loyalty to the store is one of the key objectives within a retailer's strategy. To achieve this, private label has become a powerful instrument.

It is common knowledge that price and product quality play an important role in consumer choice for private label. Both intrinsic and extrinsic cues have an impact on consumer perception of product quality and price. In this chapter we discuss how retailers seek to enhance the loyalty of shoppers.

**Intrinsic and extrinsic cues**

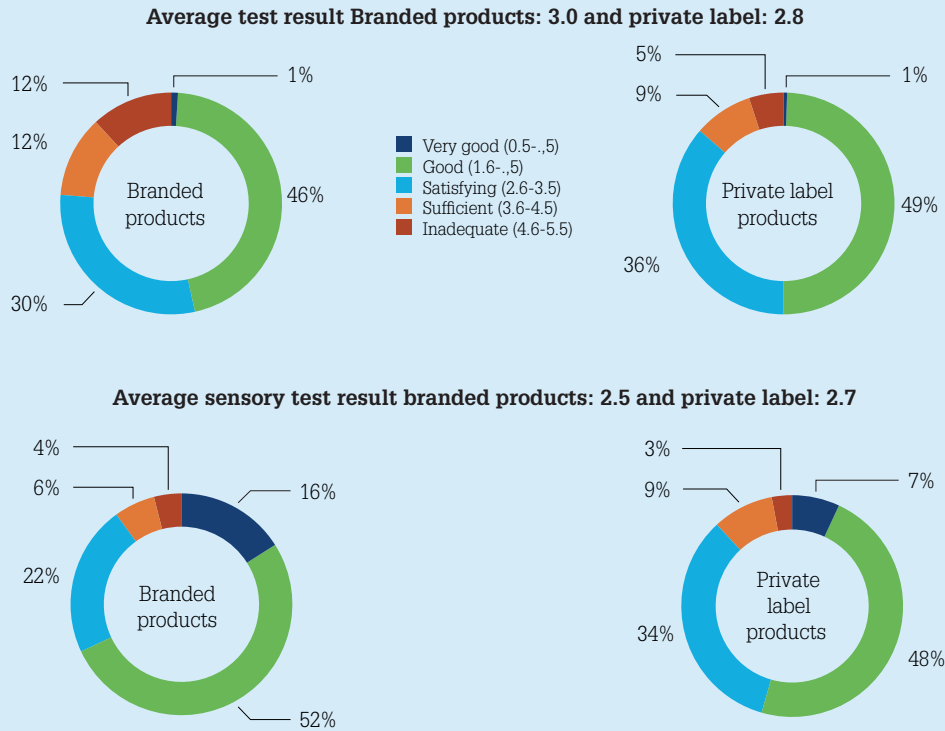
Consumers tend to use an array of cues to assess their perception of product quality. These cues can be classified as intrinsic or extrinsic to the product. Extrinsic cues are product related and not part of the physical product attributes such as image, price, brand name, advertising and packaging. Intrinsic cues represent product-related attributes that cannot be manipulated without altering the physical properties of the product such as ingredients, taste, colour and mouthfeel (sensory attributes).<sup>(1, 2)</sup>

In their early days, private label grocery products were judged as being inferior to national brands in terms of intrinsic product quality. But times have changed and retailers have made a major effort to match private label quality to the brands. Findings of research and numerous consumer tests published in magazines such as Consumentenbond Gids (the

### Private label quality tested

The renowned German test institute Stiftung Warentest, gave private label good grades stating that in selected categories retailer brands dominated. In the 2012 to 2018 period, results were analysed of 58 tests in which 1,270 food products (643 branded and 627 private label products) had been evaluated by Stiftung Warentest. The overall conclusion was that branded and private label products are comparable from an average quality perspective (graph 1). In a test evaluating 1,422 products from a sensory perspective, the 743 branded

products scored slightly better than the 679 private label products (graph 2).<sup>(3)</sup> According to Stiftung Warentest, the main reason why consumers choose private label is twofold: good quality in comparison with the brand alternative and confirmed by their tests and the opportunity to save costs.<sup>(4)</sup> That is why discount retailers in Germany use the positive test results of independent test institutes such as Stiftung Warentest or Ökotest to support their quality message. It can be announced by means of an on-shelf message but occasionally it is even printed on the packaging.





Eco-friendly



Better



Organic



Free-from



Better



Regional provenance (best)



Health claims



Fair trade