

Mind the Gap

Retailers across Europe continue to close the price gap with the Discounters

Disclaimer

Data was gathered by means of physical store checks and additional internet search by IPLC consultants. 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 specialising in strategic consultancy services and project management support to manufacturers and retailers. With a broad and deep understanding of the 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 for manufacturers, retailers and the supply industry. With unrivalled knowledge, based on many years of experience in both European retail and Private Label manufacturing, IPLC consultants interact closely with our clients.

IPLC has offices in the Netherlands, United Kingdom, Ireland, France, Spain, Belgium, Italy, Portugal, Denmark and Russia.

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Executive summary

As the growth of discount retail across Europe continues to be a key focus of the mainstream food retailers, International Private Label Consult (IPLC)'s latest research identifies a continuing closure of the price gap with varying strategies being adopted across the retailers.

In its new report, **Mind the Gap - Retailers across Europe continue to close the price gap with the Discounters**, IPLC analysed the private label architecture and pricing strategy of 16 retailers in 8 countries. The research took Lidl as a representative from the discount market and compared findings against IPLC's previous 2016 research, **How Mainstream Retailers in Europe Respond to the Discount Retail Phenomenon**.

IPLC concluded that many more retailers are actively seeking to reduce the price gap between them and the discounters. They are not simply reducing their prices but are adapting their private label architectures.

The "value" private label tier was introduced by many mainstream retailers in a bid to combat the discounters' growth in the 1990's and 2000's. However, consumers understood that these products were of an inferior quality to the discounters' private label offer and therefore it had little impact on the discounters' success.

The latest research has seen that an increased number of retailers have replaced their value brand by a label not referring to their store banner anymore, with some (such as Tesco in the UK) choosing to try to mimic the discounters' "exclusive brand" strategy by launching their own "discounter brands".

Most retailers have reduced the number of products offered under their value label (Colruyt, Carrefour Spain and Continente) and a few have discontinued the tier altogether (Albert Heijn and Coop Italy).

Some retailers have adopted a strategy of price-matching the discounters with their remaining value private label or discounter brands. It can be argued that this is not "true" price matching due to quality differences.

It was noted in the 2016 research that Edeka in Germany re-positioned its value private label, matching both the quality and price of the discounters. REWE in Germany and Jumbo in the Netherlands had followed.

The latest research has seen at least five retailers adopting a similar approach. Although this strategy will be costly it appears to be effective in stemming the success of the discounters.

The result of all of this activity has seen the price gaps of standard private label close. Compared to the national brands, standard private label is 47% cheaper, a significant shift from 2016 when it was 33% cheaper. The average price gap between Lidl and the national brands has remained almost the same at 55% cheaper (54% in 2016). The combined effect sees a significant reduction in the price gap between retailers' private label and Lidl from 21% in 2016 to now only 8% (across a selected range of products).

This noticeable increase in the use of private label to combat the discounters bodes well for the future growth of private label volume share in all European markets.

Key Findings of the research

As the growth of discounter retail across Europe continues to be a key focus of the mainstream food retailers, our latest research identifies a continuing closure of the price gap with varying strategies being adopted across the retailers.

In the IPLC research of 2016 we reported on how mainstream retailers sought to retain consumers tempted by the discount retail model¹.

We described that:

- Discount retailers had experienced strong growth over the previous decades.
- Despite mainstream retailers adding value labels² to their private label architecture, discounter retail success continued.
- In 2009, Edeka in Germany re-positioned its value private label “Gut & Günstig”, matching both quality and price of Aldi, effectively replacing their standard tier private label and creating a single like-for-like product match to the discounters.
- Edeka was followed by the second largest retailer REWE as it upgraded its value label “Ja!” with the same strategy³.

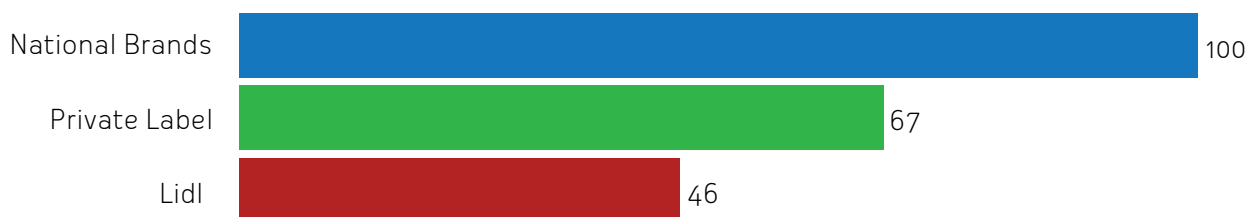
- In 2014 after some pioneering Dutch retailer Jumbo Supermarket copied the strategy of Edeka and REWE in the Netherlands.
- Despite these disruptive moves, most retailers continued to fight the discounters with their value brands: products of a lesser quality offered at average prices up to 85% cheaper (Tesco⁴) than the national brands.

RESEARCH OBJECTIVE

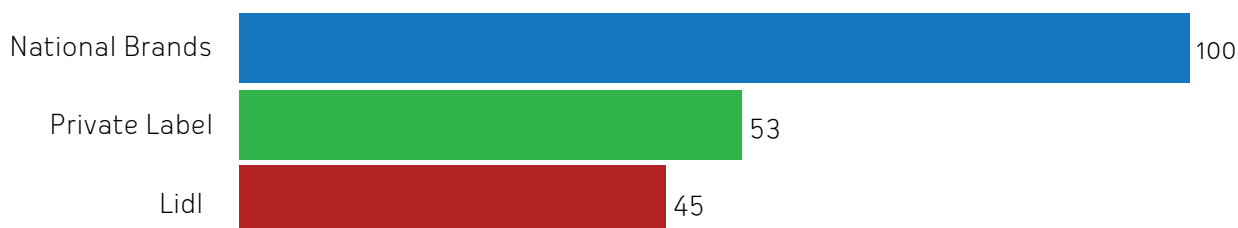
Five years later we wanted to better understand how private label strategies had changed in view of the continued growth of discount retailers in Europe⁴. We wondered to what extent the learnings from Germany had served as a model for other retailers in Europe. We repeated our research on a larger scale and analysed the private label architecture and pricing strategy of 16 retailers in 8 countries. As in 2016, Lidl was surveyed in all countries to determine the discounter price position, understanding that Lidl and Aldi tend to track each other's retail prices⁵.

Our research revealed that many more retailers actively seek to reduce the price gap with discount retailers.

Price index comparison in 9 retailers in 9 countries (2016)



Price index comparison in 16 retailers in 8 countries (2021)



The key findings from our research are:

- Retailers across Europe are adapting their private label architectures.
- The average price of standard private label compared to the national brand has dramatically dropped to be on average 47% cheaper than the brand (2016: 33% cheaper).
- The average price gap between Lidl and the national brands has remained almost the same at 55% cheaper (2016: 54% cheaper).
- As a result, the average price gap between private label in retailers and Lidl has significantly reduced from 21% in 2016 to only 8% in 2021.
- An increased number of retailers have replaced their value brand by a label not referring to their store banner anymore (Delhaize, Tesco and Carrefour France), some choosing to try to mimic the discounters' exclusive brand strategy by launching their own "discounter brands" (Tesco).
- A few have discontinued their value private label altogether (Albert Heijn and Coop Italy).
- Most retailers have reduced the number of products offered under their value label (Colruyt, Tesco, Carrefour Spain and Continente).
- A number of retailers have maintained a large number of SKUs under a value private label (Delhaize, Colruyt, Leclerc, Carrefour France and Esselunga).
- If the private label product is replaced by the value label in those retailers that still have a value brand in their private label architecture⁸ the average price almost matches the price in Lidl (only 1% more expensive than Lidl).
- Based on our findings we conclude that no longer the brands are the benchmark for private label pricing. Following German retailers Edeka and REWE, an increased number of retailers seem to have chosen Lidl⁵ as the price benchmark for their standard private label.

Retailer	Name of value label		Number of SKUs	
	2016 ¹	2021	2018 ⁶	2021
Albert Heijn (NL)	Albert Heijn Basic	No value label	293	0
Jumbo (NL)	No value label	No value label	0	0
Edeka (G)	No value label	No value label	0	0
REWE (G)	No value label	No value label	0	0
Delhaize (B)	Delhaize 365	365 essential	359	368
Colruyt (B)	Everyday	Everyday	600	486
Tesco (UK)	Tesco Everyday Value	Discounter Brands	243	167
Morrisons (UK)	Morrisons Savers	Morrisons Savers	NA	79
E. Leclerc (F)	Eco+	Eco+	446	570
Carrefour (F)	Carrefour Discount	Simpl	400	500
Mercadona (S)	No value label	No value label	0	0
Carrefour (S)	Carrefour Discount	No name	112	6
Coop (I)	No name	No value label	100	0
Esselunga (I)	Fidel	Smart	200	400
Continente (P)	Continente é	Continente é	148	72
Pingo Doce (P)	No value label	No value label	0	0

Key Findings of the research

- This is the case for Albert Heijn, Jumbo, Carrefour Spain, Mercadona⁹, Pingo Doce and Continente.
- Some retailers have adopted a strategy of price-matching the discounters with their value private label or discounter brands. It can be argued that this is not “true” price matching due to quality differences.
- German retailers Edeka and REWE have achieved stronger growth figures in their country than hard discounters Aldi and Lidl.
- In this country that is still the origin of hard discounters, the large supermarket chains have managed to increase their turnover by about 3% in 2020 while discounters had to settle for a growth of 0.9 % (Lebensmittel Praxis).
- In the Netherlands Lidl saw its market share decline from 10.9% to 10.7% in 2019. For the retailer it was the first decline after years of continuous growth. In the same period Aldi’s market share fell from 6.1% to 5.9%, despite the major renewal operations in the stores (Nielsen).
- In countries where the Edeka and REWE approach was not adopted the discounters continue to thrive. As an example, the combined market share of Lidl and Aldi in the UK grew from 9.7% in 2016 to 13.8% in 2020 (Kantar).

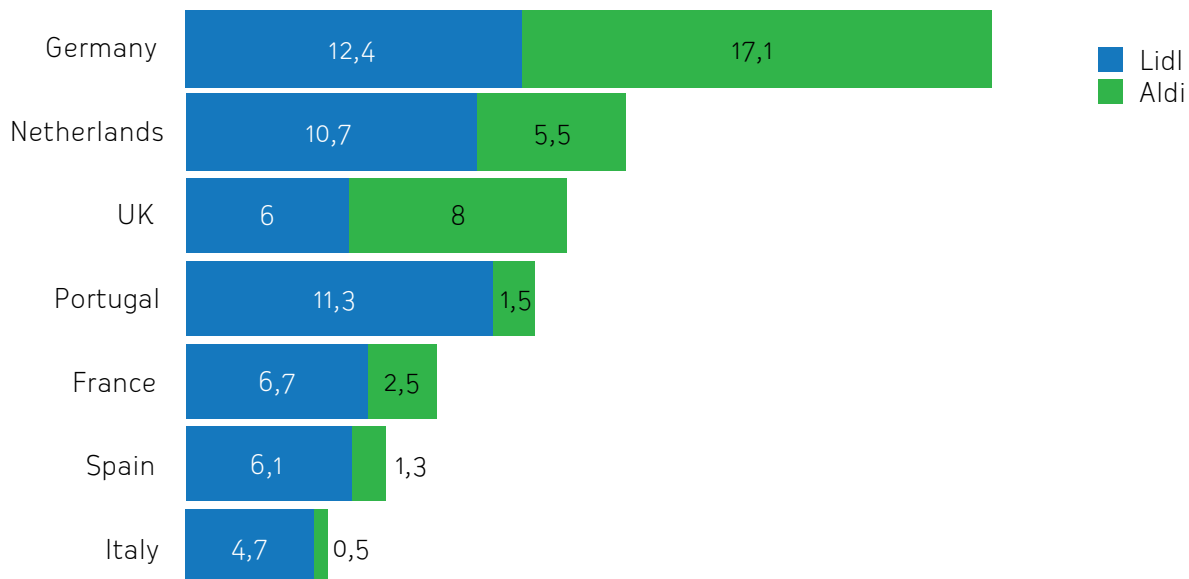
In the appendices we included the graphs covering the results of our research in 16 retailers in 8 countries.

REFERENCES, DEFINITIONS, AND REMARKS

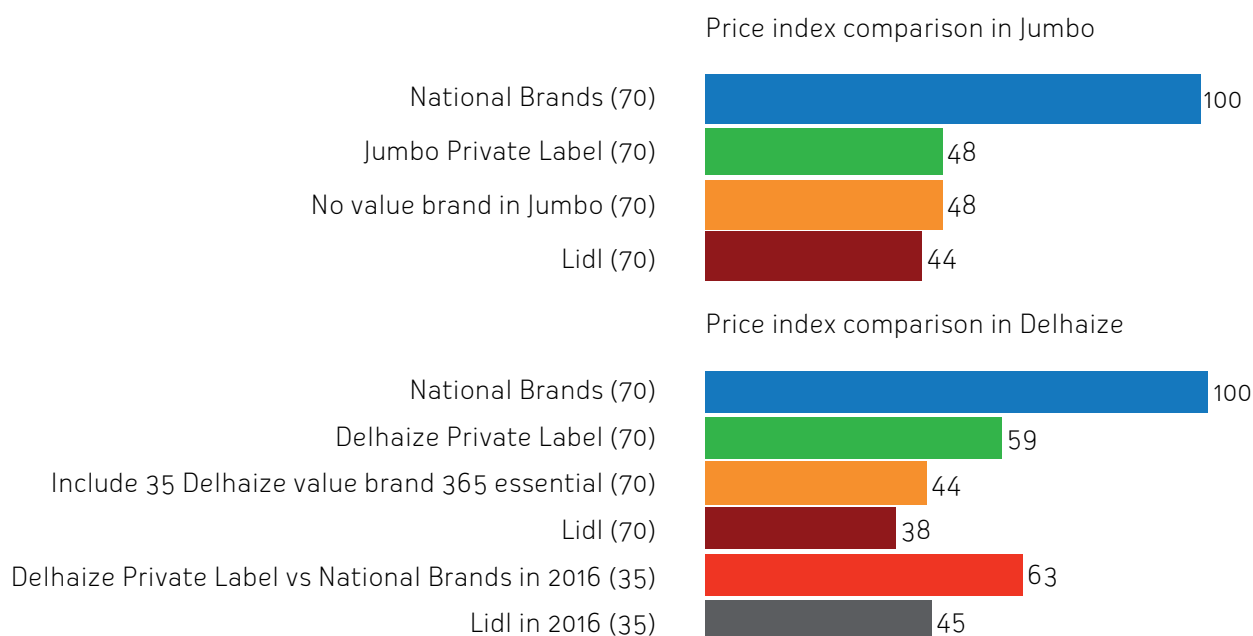
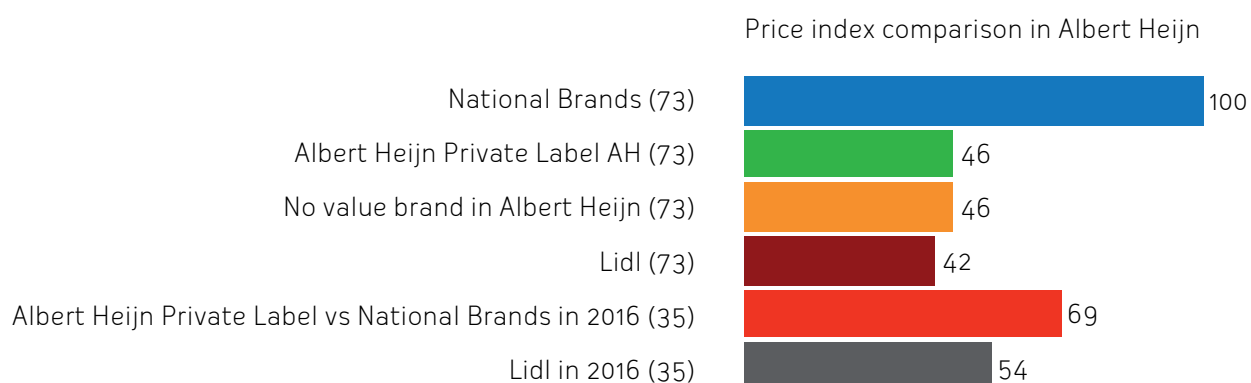
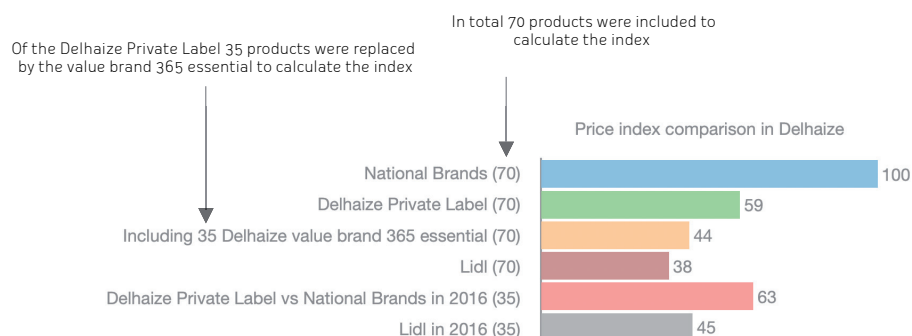
- 1 Retaining Consumers Tempted by the Discount Model. How mainstream retailers in Europe respond to the discount retail phenomenon (IPLC research 2016).
- 2 Value private label is a product of a lower quality compared to the national brand equivalent, to be offered at a low price.
- 3 The Compound Annual Growth Rate (CAGR) for Edeka (Selbständiger Einzelhandel und Regie-Einzelhandel, Netto not included) over period 2015-2020 was 4.6%. For REWE (Penny not included) the CAGR in same period was 6.9%.
- 4 Total turnover of Lidl alone rose from €81.2b to €89b in 2020 (+9.6%) (Lebensmittelzeitung 2020).
- 5 Lidl is used as a benchmark, this can also be read as Aldi because these retailers strategically match each other’s price level.
- 6 Opportunities in the Value-Added Private Label Market. How mainstream retailers in Europe seek to drive shopper loyalty and category growth (IPLC research 2018).
- 7 Comparison of indices between retailers nor countries can be made as the composition of shopping basket may vary.
- 8 To calculate this index the following retailers were included: Colruyt, Delhaize, Tesco, Morissons, Leclerc, Carrefour France and Continente (average index for private label including the value brand product if available: 47 vs 46 in Lidl).
- 9 Mercadona and Lidl in Spain price their private label at the same level. It is more likely that Lidl benchmarks against Mercadona and not vice versa. Mercadona is the leading retailer with a market share almost 4 times larger (Mercadona: 24.5% vs. Lidl: 6.1%).

Appendices

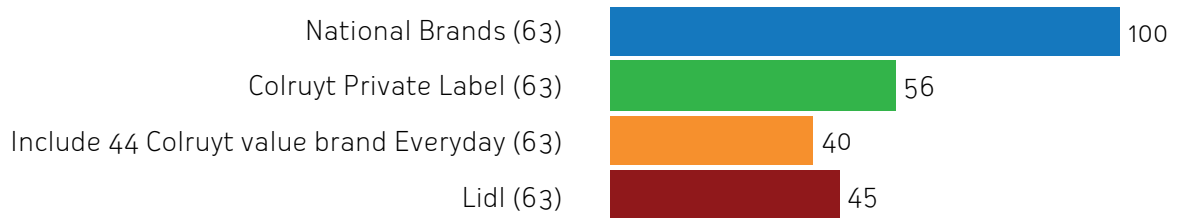
Market share Lidl and Aldi by country in %



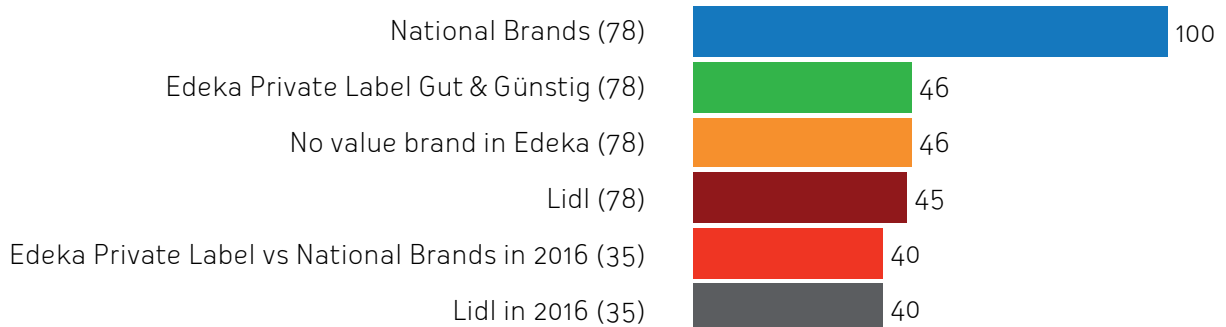
AN EXAMPLE OF HOW TO READ THE CHART:



Price index comparison in Colruyt



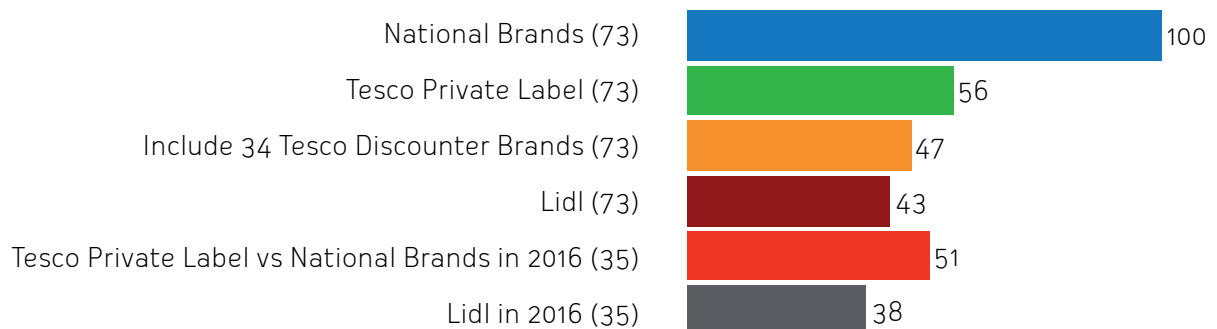
Price index comparison in Edeka



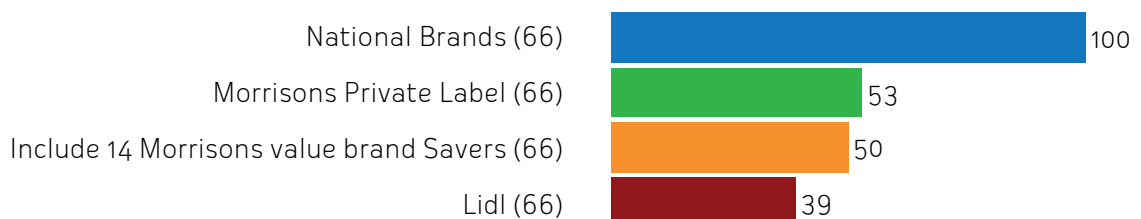
Price index comparison in REWE



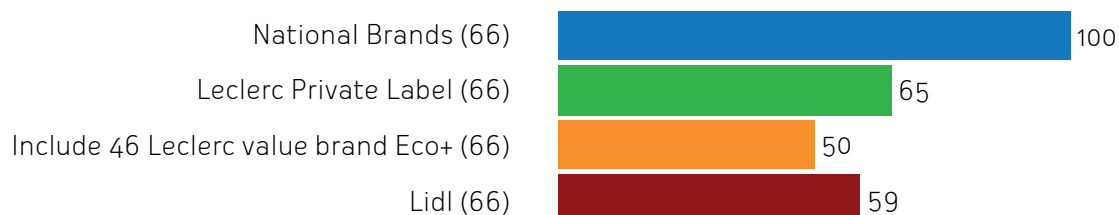
Price index comparison in Tesco



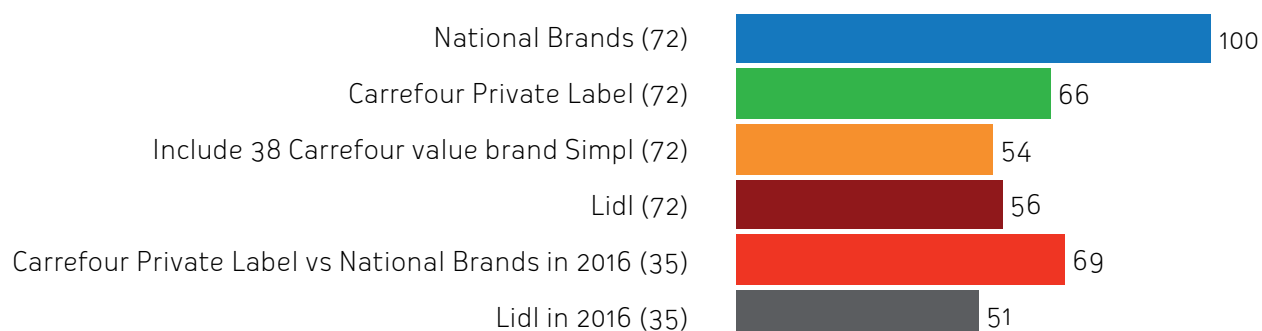
Price index comparison in Morrisons



Price index comparison in Leclerc



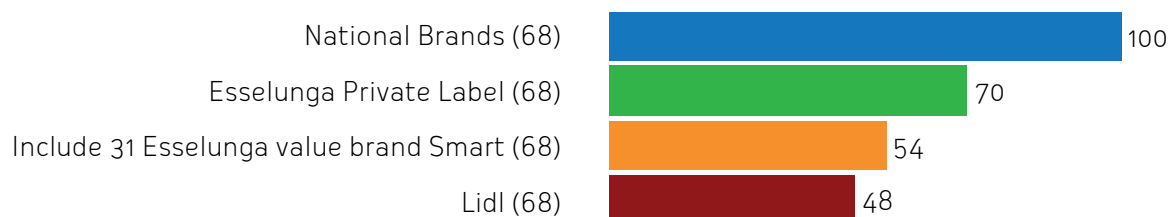
Price index comparison in Carrefour France



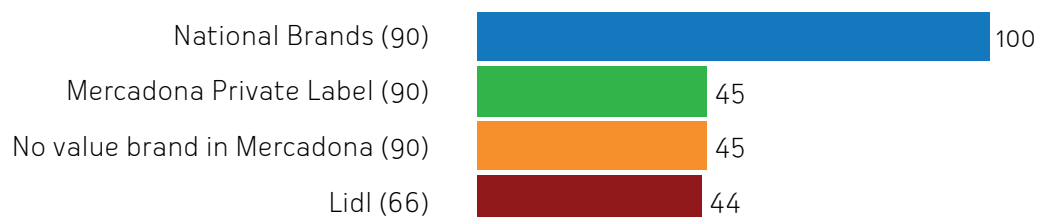
Price index comparison in Coop Italy



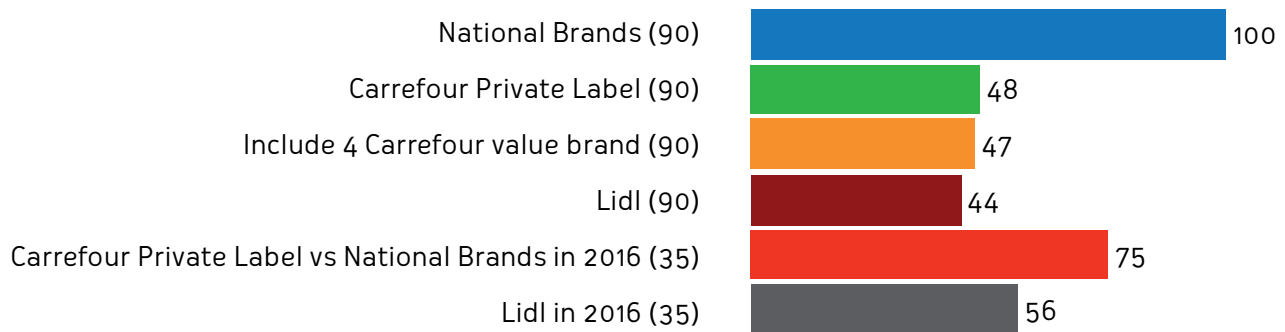
Price index comparison in Esselunga



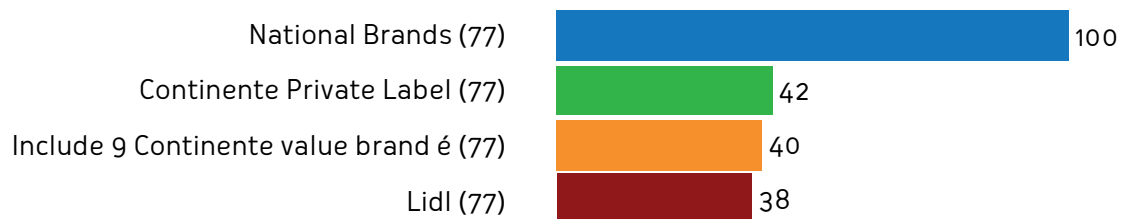
Price index comparison in Mercadona



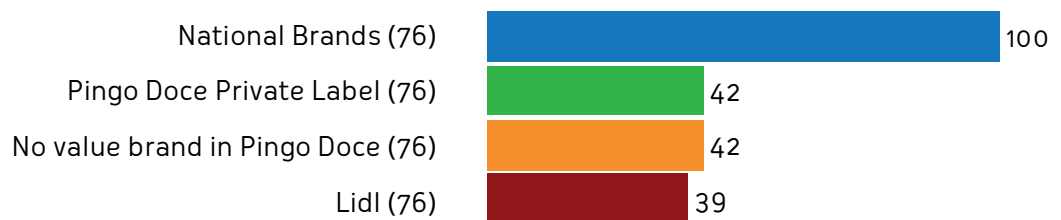
Price index comparison in Carrefour Spain



Price index comparison in Continente



Price index comparison in Pingo Doce



Methodology

In February and March 2021 IPLC conducted store checks in 8 European countries (1) and 16 retailers (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 two mainstream retailers and Lidl (6) were included in the research. Of each mainstream retailer, data was gathered on the national brand product, the private label equivalent (7) and the respective value private label if available (8). At Lidl data was registered on the private label equivalent of the national brand.

- 1 Netherlands, Belgium, Germany, United Kingdom, France, Italy, Spain and Portugal.
- 2 Albert Heijn and Jumbo (NL), Delhaize and Colruyt (B), Edeka and REWE (G), Tesco and Morrisons (UK), Carrefour and Leclerc (F), Esselunga and COOP (I), Mercadona and Carrefour (S), Continente and Pingo Doce (P).
- 3 The basket included around 70 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 different consumer preferences. However, the balanced total remained representative to allow for a fair comparison, The indices do not allow for 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) of features (i.e. ring pull, flip-cap, easy opening) were disregarded.
- 6 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 focussed) for most products, resulting in the same quality in all countries. Therefore, it can be considered as the price and quality setting discounter on a European scale.
- 7 Match of the national brand carrying the store banner brand: Edeka Gut & Günstig, REWE Ja!, Albert Heijn AH, Jumbo, Tesco, Morrisons, Colruyt Boni, Delhaize, Carrefour, Leclerc Marque Repère, Mercadona Hacendado, Continente, Pingo Doce, Esselunga and COOP.
- 8 365 essential (Delhaize), Everyday (Colruyt), Tesco Discounter Brands (Eastman's Deli Foods, Hearty Food Co., Butcher's Choice, Bay Fishmongers, HW Nevill's Quality Bakers, Growers Harvest, Stockwell & Co. and Creamfields), Savers (Morrisons), Eco+ (Leclerc), Simpl (Carrefour France), Smart (Esselunga) and é (Continente).