KANTAR WORLDPANEL

THOUGHTS ON...

CHANNELLING YOUR GROWTH:
Should brands list at the discounters?

Kantar Worldpanel's **Thoughts On...**
the discount retailers

CHANNELLING YOUR GROWTH

The changing face of grocery

The British grocery market is going through a period of unprecedented change. In October 2014, Kantar Worldpanel recorded grocery deflation for the first time in a decade – a symptom of intense price competition between supermarkets – with the average shopping basket costing less than it did a year before. Just one month later brought the first ever absolute decline in the British grocery market.

This is a challenging time for retailers. It is also tough for brands, which have to be more alert than ever to the opportunities that still exist for growth. When looking for opportunities, three areas consistently lead the agenda: convenience, e-commerce and discounters.

Convenience retail has dominated headlines with reports of the increasing popularity of the format in Britain. However, the growth of convenience is often overstated. Kantar Worldpanel research demonstrates that consumers are not shopping more frequently than they did in 2010, and they are not buying fewer items per trip. Convenience may account for one in five of trips but is still far from replacing the traditional supermarket.

Nor has the supermarket been usurped by e-commerce. Online grocery is growing at a healthy 18% and is now a £6.4 billion industry, making it a noteworthy force for change in the industry. But relative to the wider market, such as entertainment where over half of all sales are made online, it still accounts for a small proportion of all grocery sales at just 6%. The key to unlocking substantial scale for online grocery commerce is to be more than just a solution for a household's main shop.

Rise of the discounters

The 'discounters' – German retailers Aldi and Lidl – are growing, and they are growing fast. In 2010, Aldi and Lidl held a combined 4.5% share of the grocery market. Today, driven by consistent sales increases of around 20% and a combined £2 billion being taken through their tills each quarter, that figure is 8.3%. This equates to an increase of £1.8 billion per annum: not a figure to be taken lightly.

During their rapid expansion the discounters have changed, and not always in the way you would expect. Both Aldi and Lidl have invested heavily to improve brand image, enhance the in-store experience, expand product repertoire and overall to broaden their appeal.

Move to the mainstream

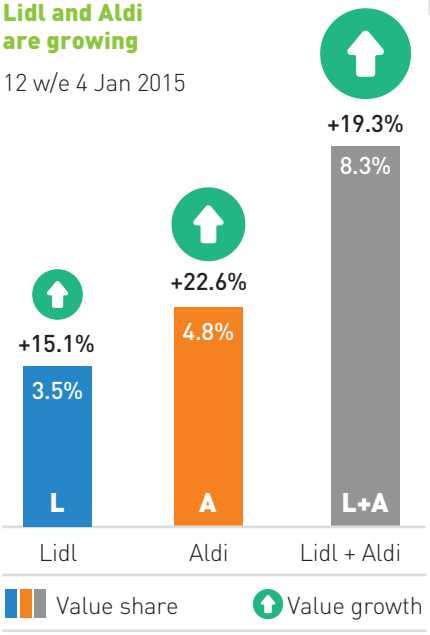
There has been a huge shift in scale; Aldi's share of the grocery market is now similar to that of Waitrose and the combined share of Aldi and Lidl is approaching the size of Morrisons. People are increasingly visiting the discounters for their main shop, and the client base of Aldi is now demographically closer to the British 'average' than any other supermarket.

Lidl and Aldi stores in the UK

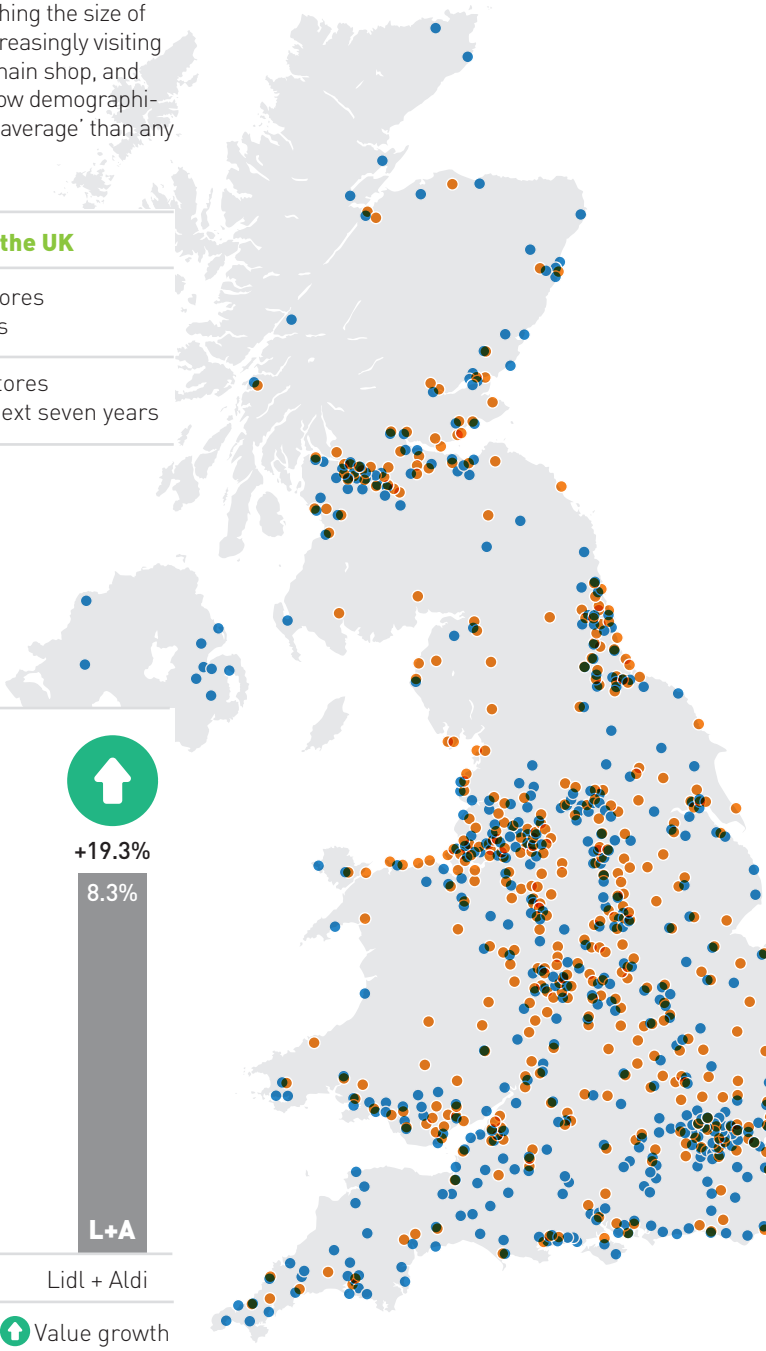
- Lidl currently 600 stores
  Pledged 1,500 stores
- Aldi Currently 500 stores
  1,000 stores in the next seven years

Lidl and Aldi are growing

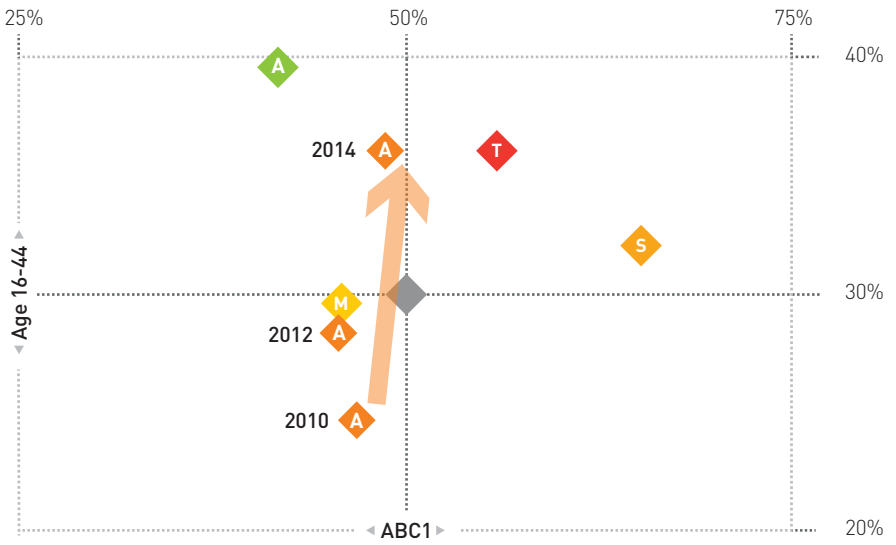
12 w/e 4 Jan 2015



In short, this rapid growth in mainstream popularity means the discounters cannot be ignored. Indeed, they are only likely to become more prevalent in the British market. Aldi aims to double its footprint in the UK and open its thousandth store by 2022. Although this should be viewed in context of the broader grocery market, where each of the big four already have a store portfolio that is three times as large as Aldi's ambitious forecast.



Aldi have become demographically mainstream
Not so much the move to ABC, but rather including younger shoppers.



Making it worth it

Given the discounters' success, it may seem surprising that a common conundrum for branded manufacturers has been whether or not they should sell their products in these retailers.

Thinking on this issue has broadly been divided into two schools of thought:

The optimists:
Discounters make up over 8% of the British grocery industry; I can't afford to lose the opportunity of such a large potential market. Surely if my brand gets its fair share of these sales it will be worth it?

The sceptics:
Listing in a discounter could negatively impact my brand and its image, not to mention that it will be sold at a rock-bottom price and impact my existing customer relationships. It simply isn't worth the risk.

The concern of the sceptics around brand image is increasingly outdated. Lidl and Aldi are now mainstream retailers. Campaigns such as 'Lidl Surprises' have played on and dispelled negative preconceptions about the quality of food, and their success in changing public perception can be seen in their broadening customer base.

Meanwhile, the outlook of the optimists has long been too one dimensional by assuming that reaching another 8% of the market will be beneficial for their brand.

The true answer to the question of whether to join the discounters lies in whether a purchase made in these retailers is incremental to a brand's sales. Does listing in a discounter actually add to revenue? To answer this, we need to look closely at shopper behaviour.

Is it incremental?

At a category level shoppers are not as store-loyal as is often thought. Two-thirds of households visit four or more stores during a typical 12 week period. Despite what is often reported, over the past five years convenience has not substantially grown nor has shopping behaviour really changed. A consumer who shops in Aldi is just as likely to be a Tesco shopper on another day. What's more, the average basket at a discounter is largely the same as at any other retailer.

What we do know is that at a category level shoppers plan their shopping quite carefully; around 80% of category purchasing is decided before a shopper steps into store. The combination of these two factors means that, by and large, when a category is purchased in a discounter it is very likely to have been bought in another retailer anyway.

It's a different picture at brand level. In only half of cases where shoppers bought a specific brand did they actually plan to do so in advance. On average there is a 50:50 chance that a purchase in a discounter would not have otherwise been made at another retailer. This purchase is therefore highly likely to add an incremental sale. Kantar Worldpanel's assessment of over 350 branded products sold at Aldi and Lidl found that for 60% of shoppers it was the first time that year they bought the brand in question.

A question of price

If considering increasing volume alone, the conclusion would be that listing in a discounter will deliver positive results for a brand. However, the low prices for which the discounters are famous must also be taken into account.

If a product is being bought for too little at a discounter, there is a chance it isn't being bought elsewhere where prices could be higher.

Price is therefore by far the most careful consideration a brand has to make. Ensuring price is as close to that seen elsewhere is key, not only to protect from cannibalised sales but to safeguard a brand's future. Launching in a discounter at a price point that is too low could impact on long term pricing for a brand in all its retailers.

Mostly, brands are managing to successfully achieve the correct balance of price. Kantar Worldpanel has found that on average branded goods sold at the discounters are just 5% cheaper than they are elsewhere. One crucial difference in the strategy of the discounters is that, unlike their larger rivals, they very rarely sell products on promotion or discount. When the effect of promotions is taken into account, it is evident that the average price a brand is sold at in a discounter could actually be higher than in other retailers.

The 'new normal'

A new strategy from the UK's biggest retailers could upset the established equilibrium of how brand prices are compared. All of the major supermarkets have historically price-matched branded goods by benchmarking against each other. Increasingly, the price in the discount retailers is the point of comparison. Morrisons, for example, announced in September 2014 that it would be price matching against Aldi. As the 'discount' price is becoming the new normal, it is more important than ever to make sure the selling price in Aldi or Lidl is as close to the RRP as possible.

What sells?

Received retailer wisdom often follows that it is necessary to engineer either product, price or pack size in order to suit a discounter. If a brand has assessed the option of entering a discounter and decided it can sell at the right price without cannibalising sales elsewhere, how should it go about selecting which ranges to sell there?

It has been suggested that large multi-packs and cheaper ranges are most likely to work well. However, Kantar Worldpanel has found that four out of five brand packs that launched in the discounters last year already existed within the manufacturer's portfolio. There has been little engineering to target the discounters, either in new products or pack sizes. In the context of Aldi having the most demographically representative shopper, this strategy makes sense: mainstream products for mainstream shoppers. To date there has not been a need for brands to create new and bespoke products for the discounters. Put simply, if a brand thought it could list at the right price, it should and could do so tomorrow.

The time is now

For the majority of brands, listing in a discount retailer will increase their volumes of sales. The key to making this listing a success is ensuring that it is done so at the right cost and that price isn't driven down too significantly over time. The only genuine risk of listing in a discounter is cannibalisation; that's why finding the right price point is essential.

It's important to remember that the discounters pride themselves on carrying a streamlined portfolio of products – around 2,000 lines compared with 35,000 in major retailers. As consumers increasingly choose discounters for their main shop, so will these retailers be likely to expand their portfolio. But discounters are not going to keep adding brands to their lists forever and risk this important point of difference.

So, brands wanting to take advantage of this rapidly-expanding sector will have to be quick to avoid missing out. Discount retailers offer a unique opportunity for growth; the time to take advantage is now.

Relationship advice

One further concern about listing in the discounters is the possible damage it may do to existing supplier customer relationships. There has even been a whisper within the industry that being listed in a discounter could lead to de-listing elsewhere.

Kantar Worldpanel analysed the brands which listed in a discounter last year, comparing their performance at the major supermarkets with brands which didn't. The results revealed that brands in the discounters fared no better or worse at the large supermarkets than those which did not.

Put simply, there is no correlation between working with a discounter and a fall in sales at the larger supermarkets. While industry rumour of a possible backlash may be a concern, it isn't something that is happening in practice.

METHODOLOGY

All the primary data used in this report comes from our grocery shopper panel, on which we continually measure the purchasing behaviour of 30,000 demographically representative households in Great Britain (England, Scotland and Wales).

We collect information on what they are buying, where they have bought it and why. This allows us to develop a detailed picture of the British retail market. The potential level of detail available on the panel goes way beyond that used in this report to help manufacturers and retailers within the industry really understand their performance at a granular shopper level.

Data on shopper attitudes and experiences was collected from our panellists by means of an online questionnaire which focused on 21 different categories. We specifically interviewed shoppers who very recently made a category purchase and asked them to tell us more about it.

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