Retail Disruptors

The spectacular rise and impact of the hard discounters

RETAIL

DISRUPTORS

The spectacular rise and impact of the hard discounters

EFMI BUSINESS SCHOOL

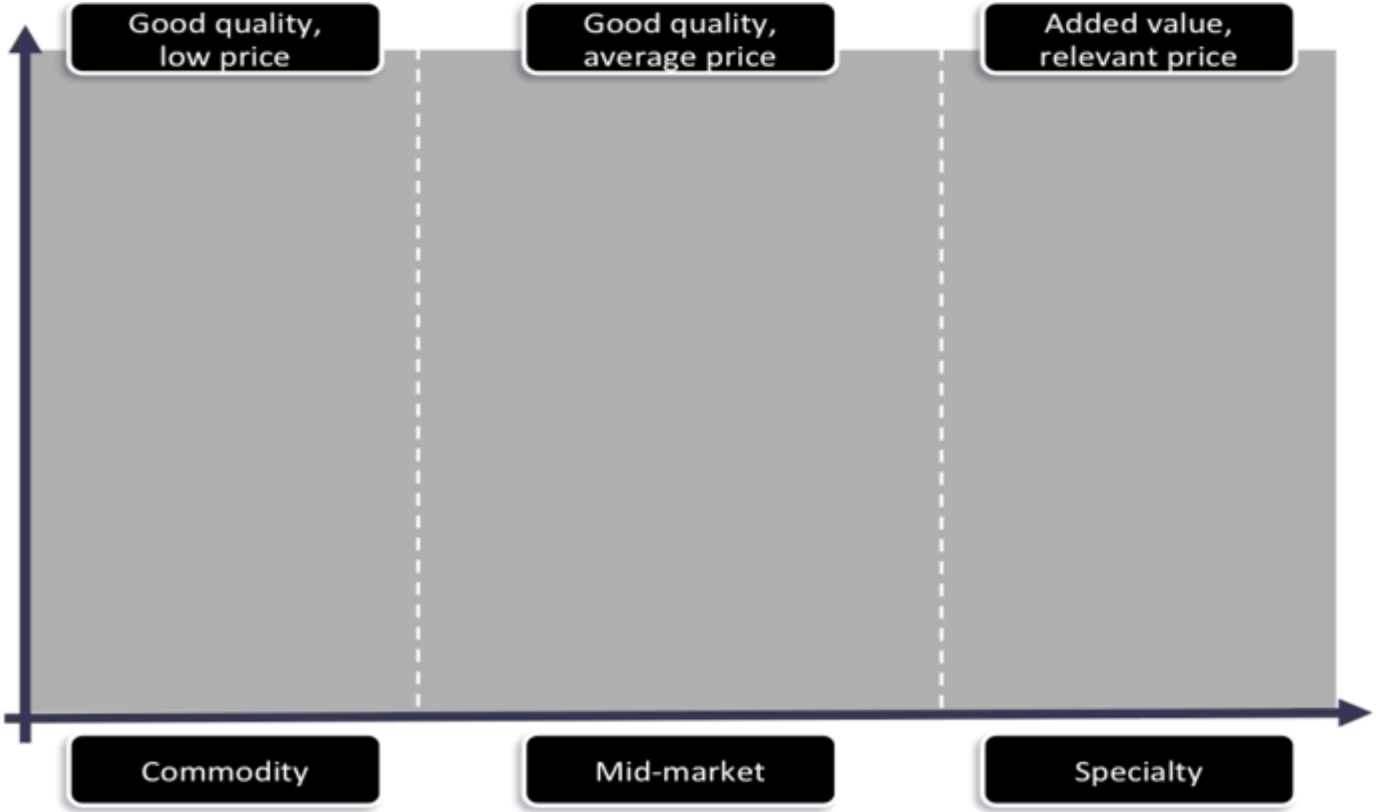
EFMI FOOD RETAIL'S

GAME OF THRONES

HYPER COMPETITION IN THE WORLD OF GROCERY RETAIL

"Retailing is the fine art of separating consumers from their money"

MY VIEW ON RETAIL MARKETS



Good quality, low price

Good quality, average price

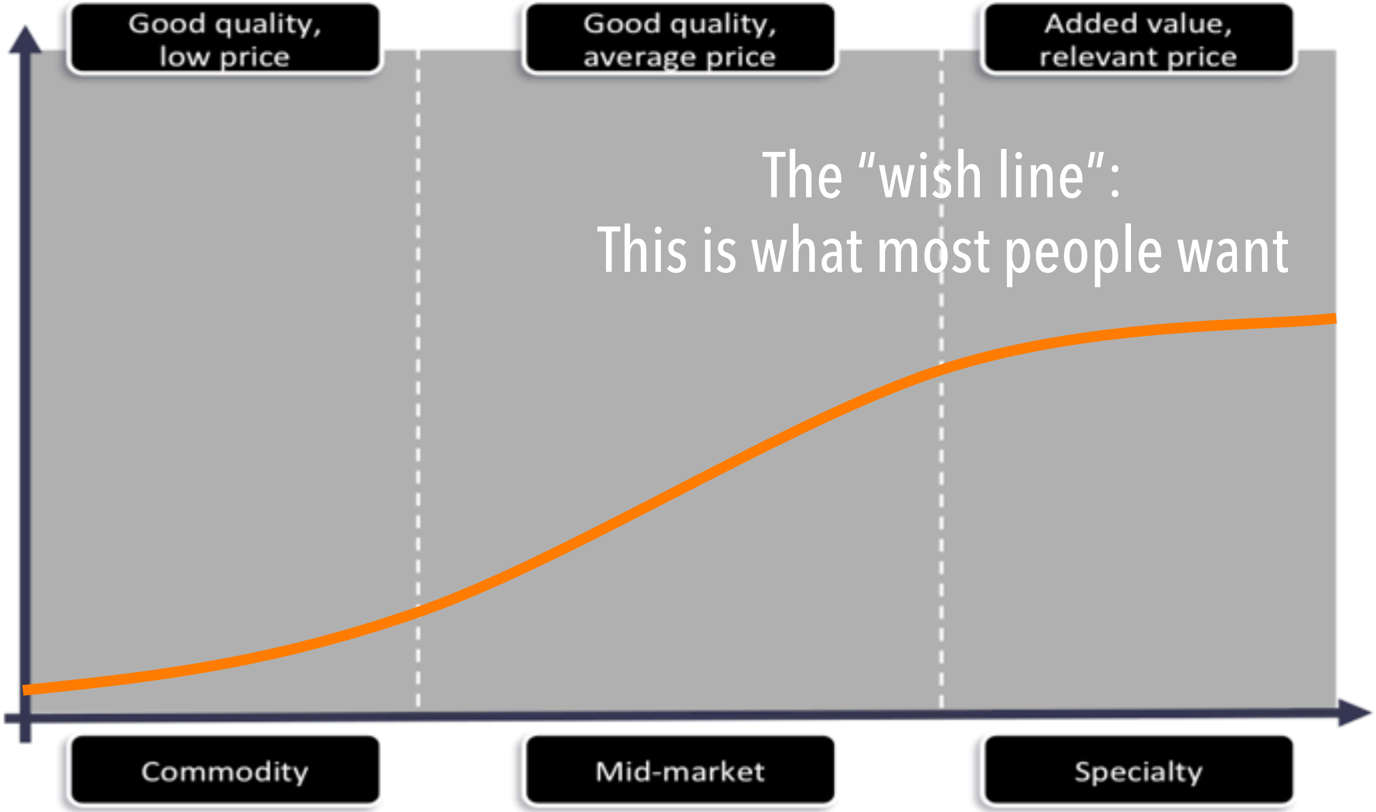
Added value, relevant price

Commodity

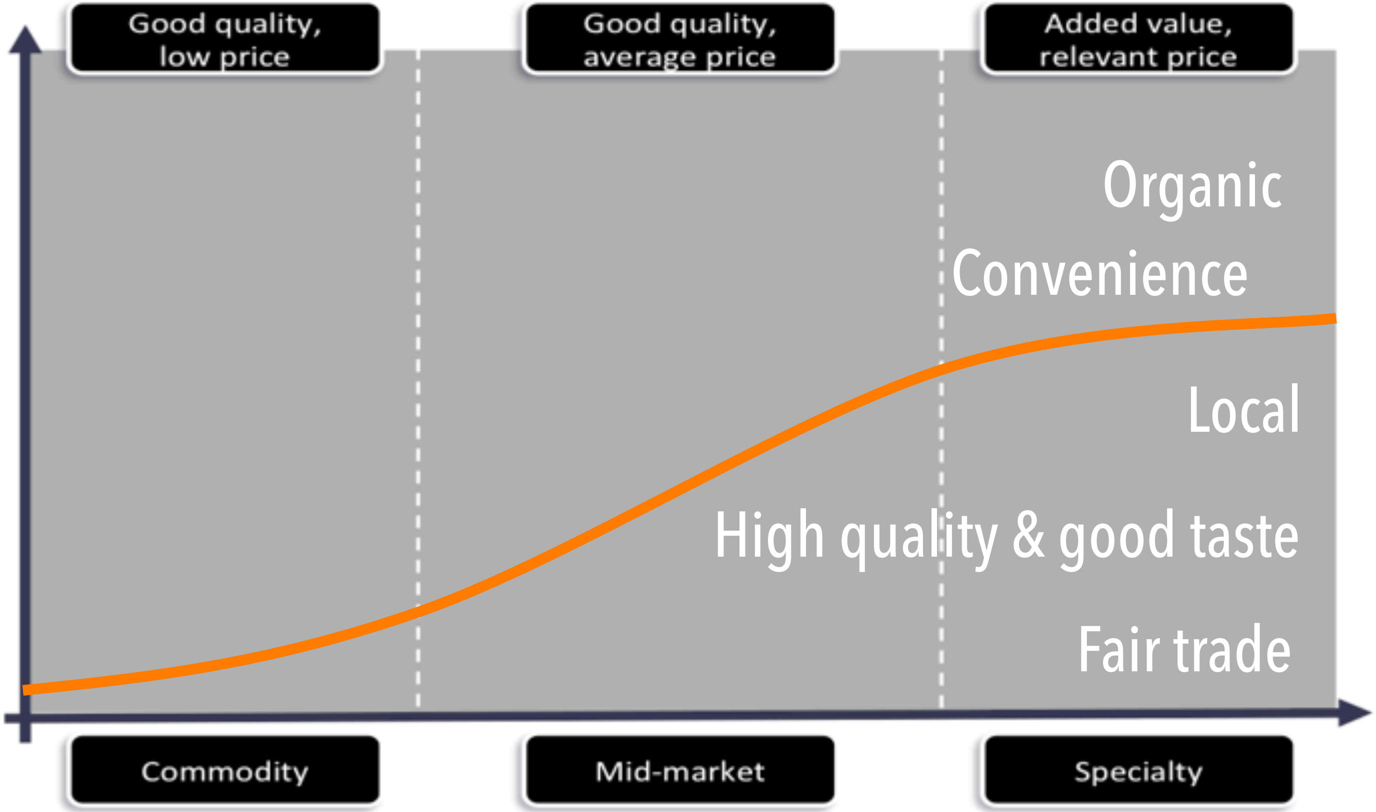
Mid-market

Specialty

MY VIEW ON RETAIL MARKETS

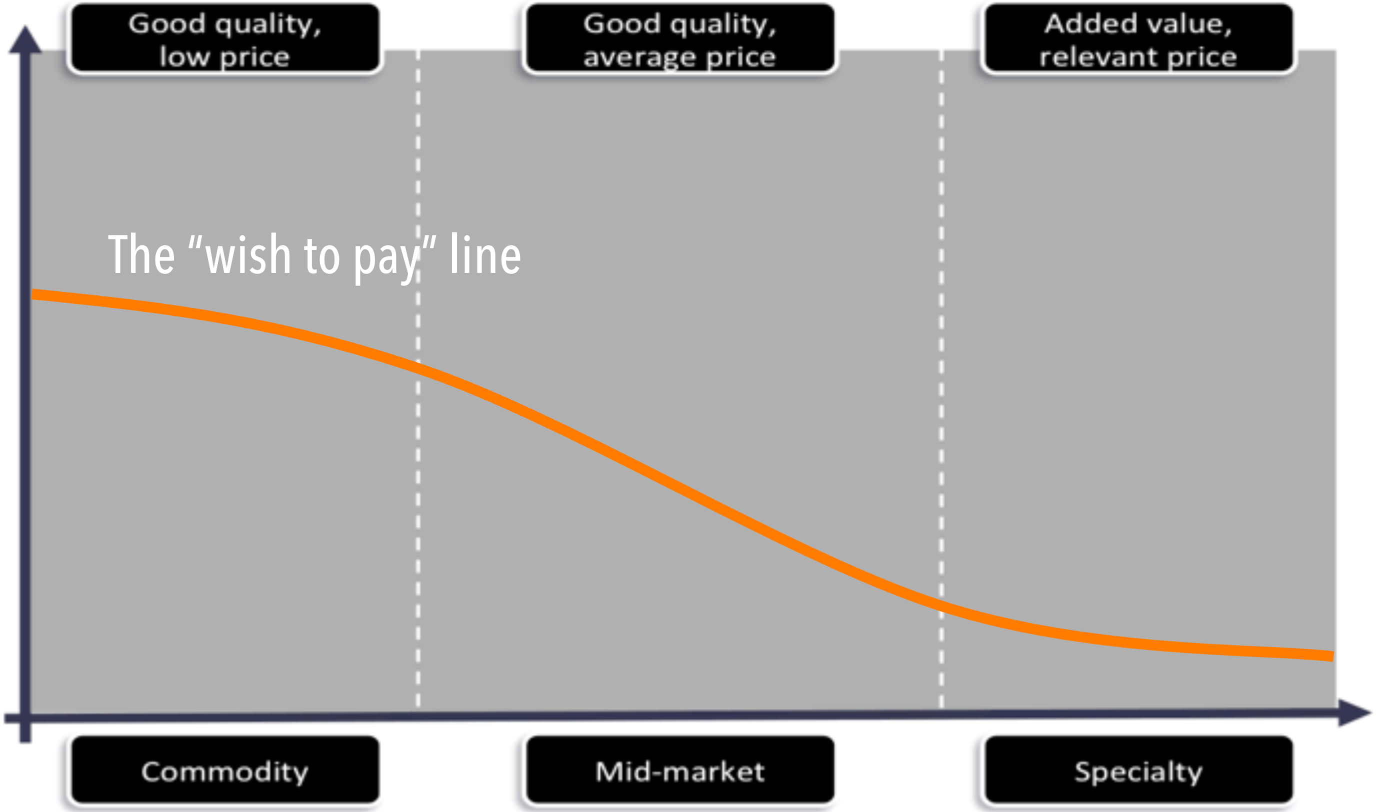


MY VIEW ON RETAIL MARKETS

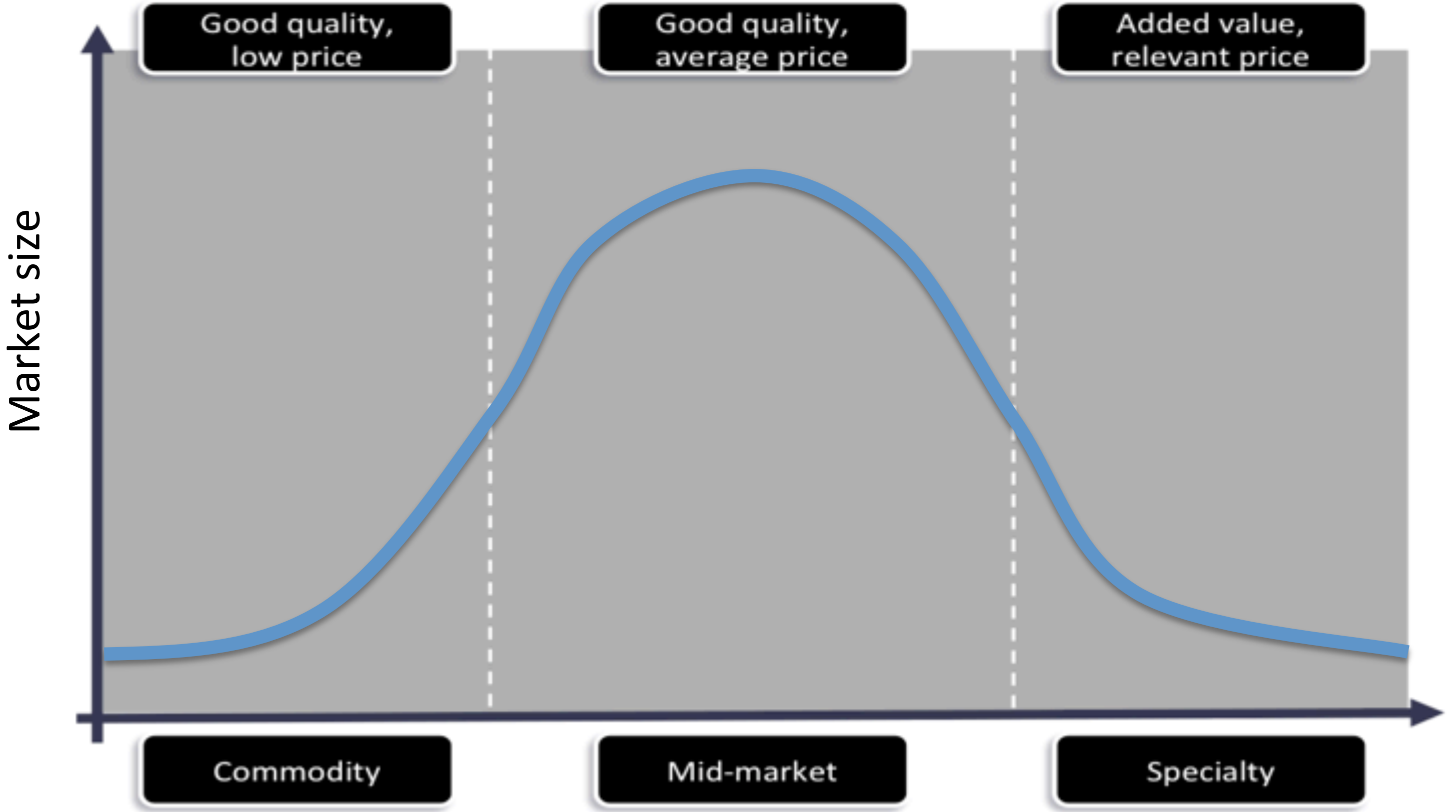


"Poor people need low prices, but rich people love them"

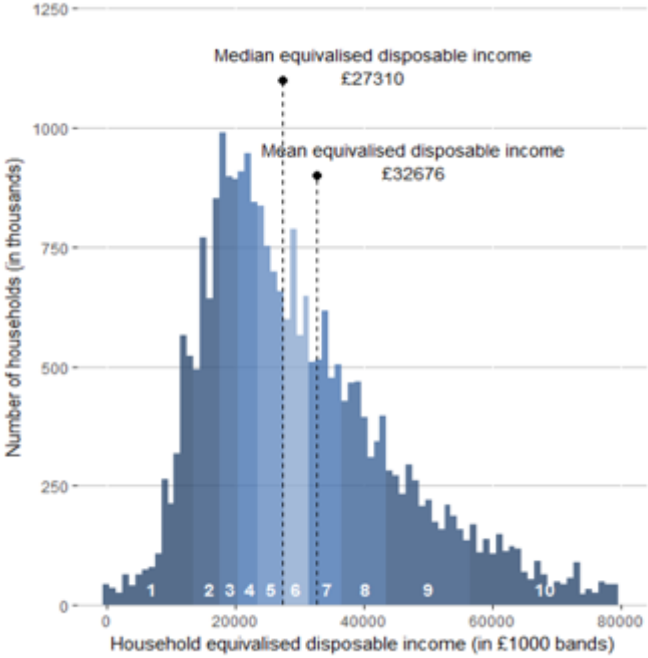
MY VIEW ON RETAIL MARKETS

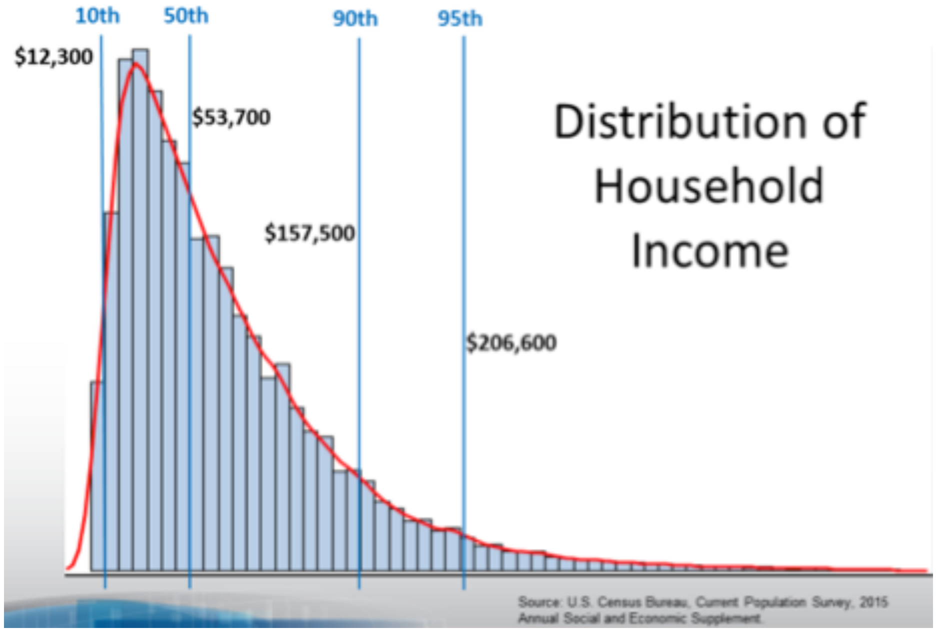


THIS RESULTS IN A 'BELL-CURVED' MARKET



MOST HOUSEHOLDS INCOMES ARE LIMITED – AND NOT EVENLY DISTRIBUTED





Distribution of Household Income

Source: U.S. Census Bureau, Current Population Survey, 2015 Annual Social and Economic Supplement.

PURCHASING POWER OF MOST HOUSEHOLDS IS MEDIOCRE AND STABALAZING

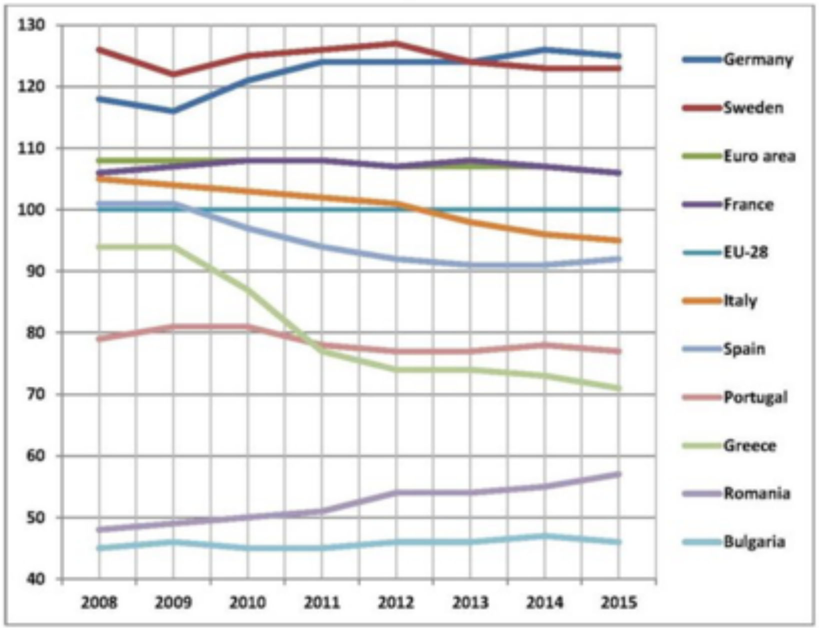
Average income standard household in the Netherlands

Huishoudboekje van traditioneel kostwinnersgezin met twee kinderen (6 en 14 jaar) (35.000 euro per jaar)

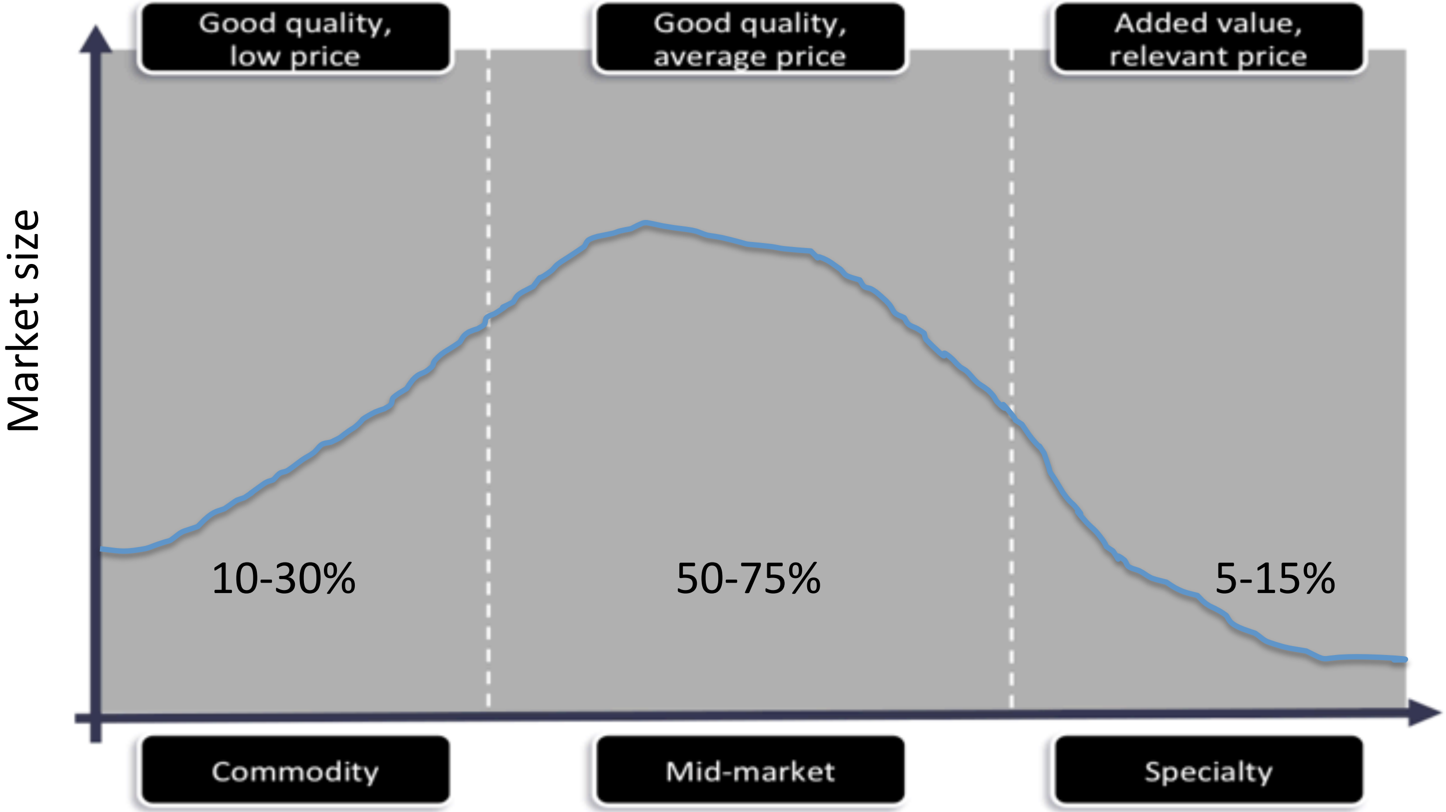
Soort post	Bedrag netto per maand (in €)	Achtergrond
Inkomsten	2372	Incl. kinderbijslag en kindgebonden budget
Huur	528	Gemiddelde huur
Overige vaste lasten	670	Gas, elektriciteit, water, verzekeringen, internet, tv, telefoon, vervoer
Reserveringsuitgaven	416	Kleding, inventaris, onderhoud huis en tuin, niet-vergoede ziektekosten
Huishoudelijke uitgaven	592	Voeding, was- en schoonmaakmiddelen, persoonlijke verzorging
Inkomsten - uitgaven	+ 166	
		Geen uitgaven begroot voor sociale participatie (gemiddeld 257 euro) of auto (al snel 400 euro)

Development of GDP per capita in EU

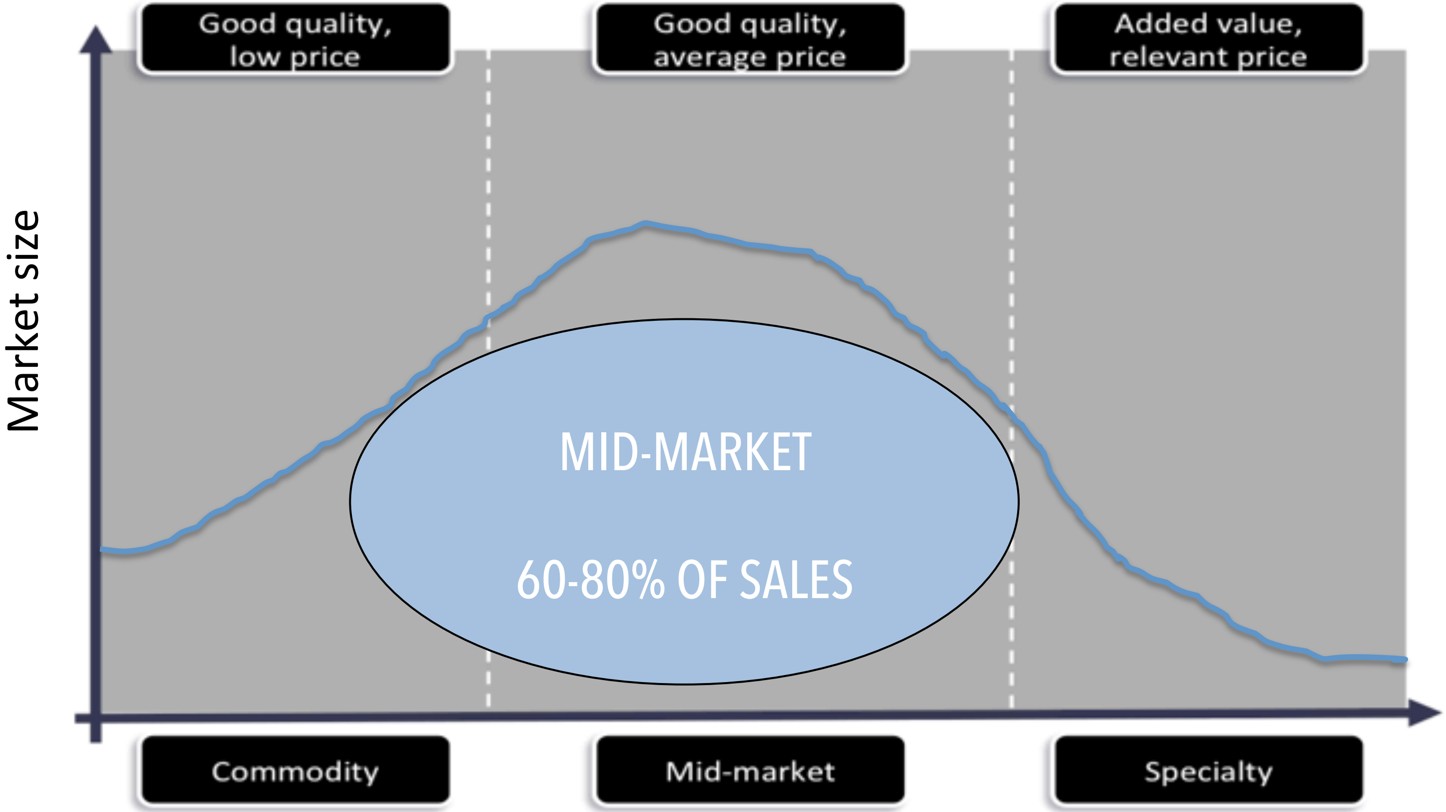
(purchasing power standard)



SO, MOST MARKETS IN FOOD RETAIL LOOK A BIT LIKE THIS

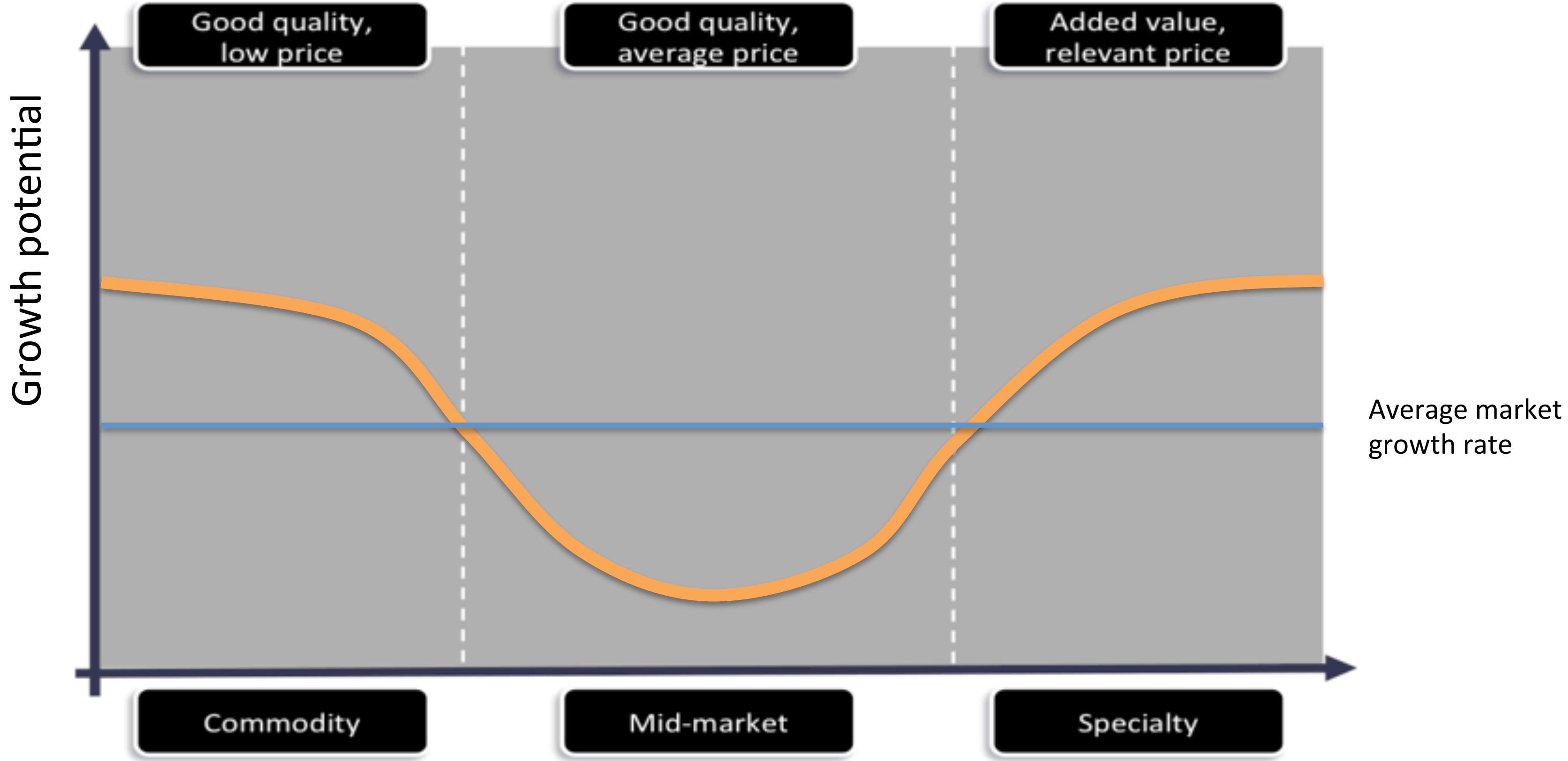


THE MID-MARKET STILL HOLDS ‘THE BULK’ OF THE SALES



When markets mature the ‘Well curve‘ becomes more dominant

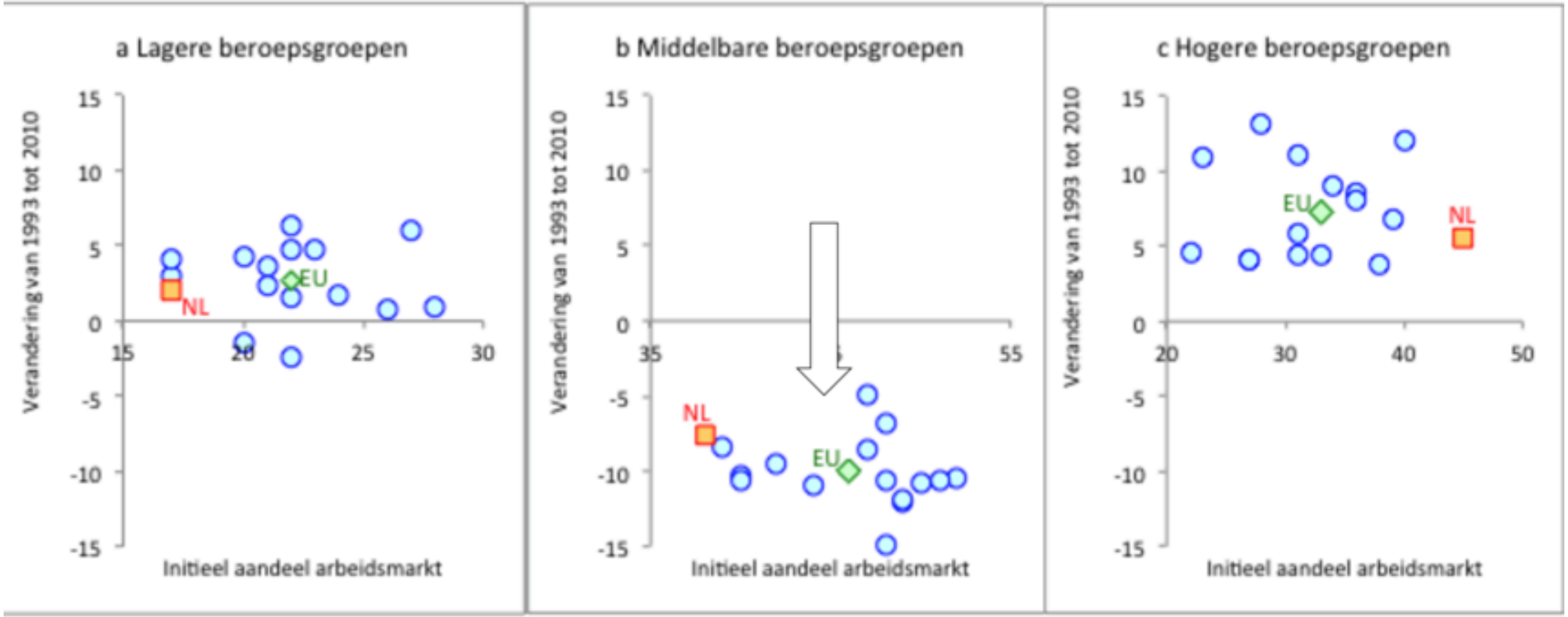
THE WELL-CURVE: POLARIZING CUSTOMERS

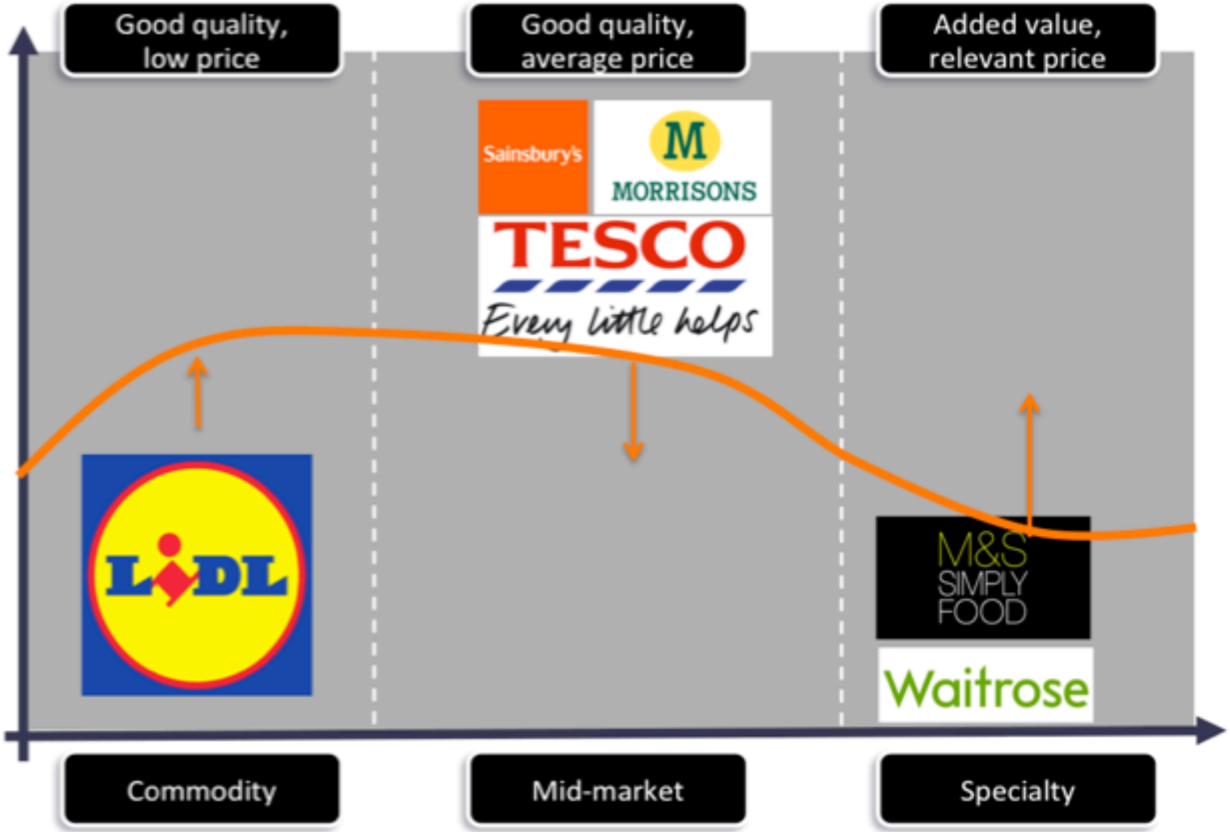


POLARIZATION IS ALSO BASED ON CHANGING LABOR MARKET PERSPECTIVE

Arbeidsmarktontwikkelingen in 16 Europese landen

Verandering in procentpunten, 1993-2010 (bron: Goos et al.2013)





Good quality, low price

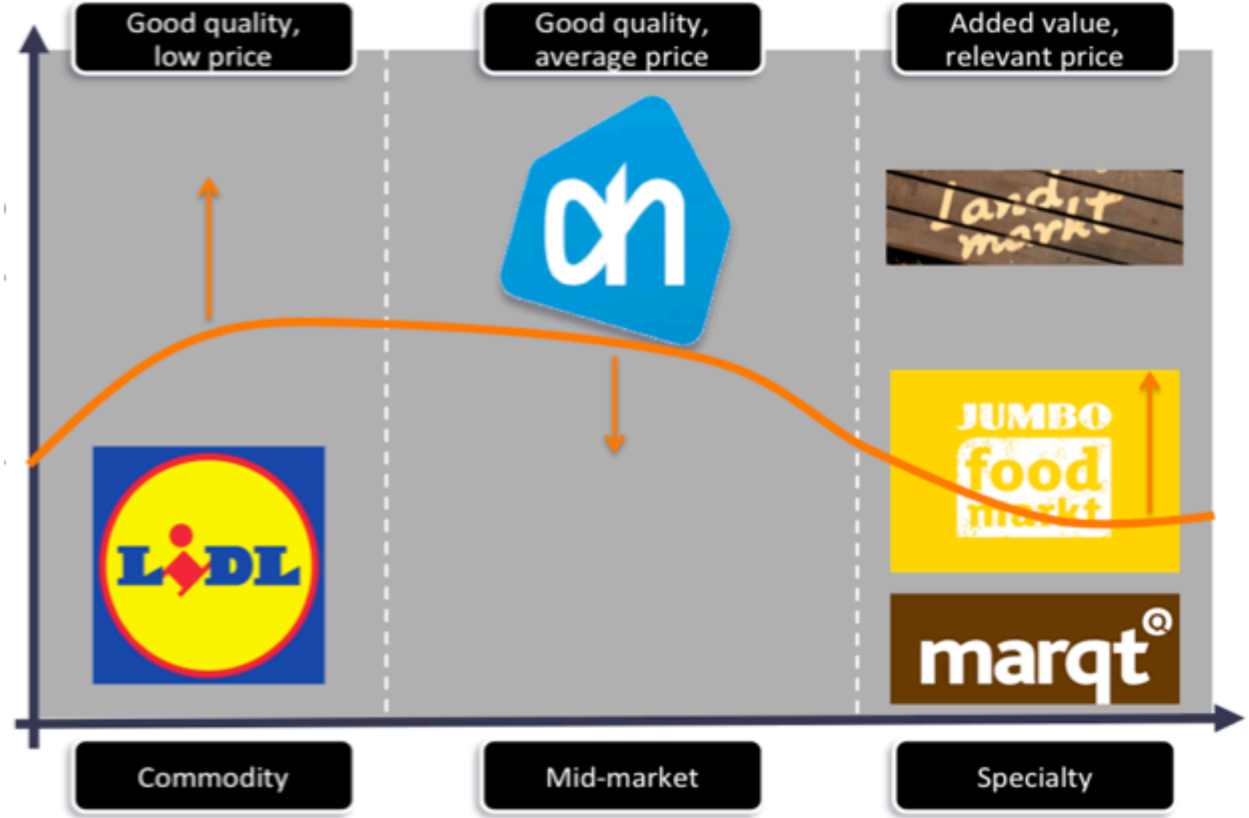
Good quality, average price

Added value, relevant price

Commodity

Mid-market

Specialty



Good quality, low price

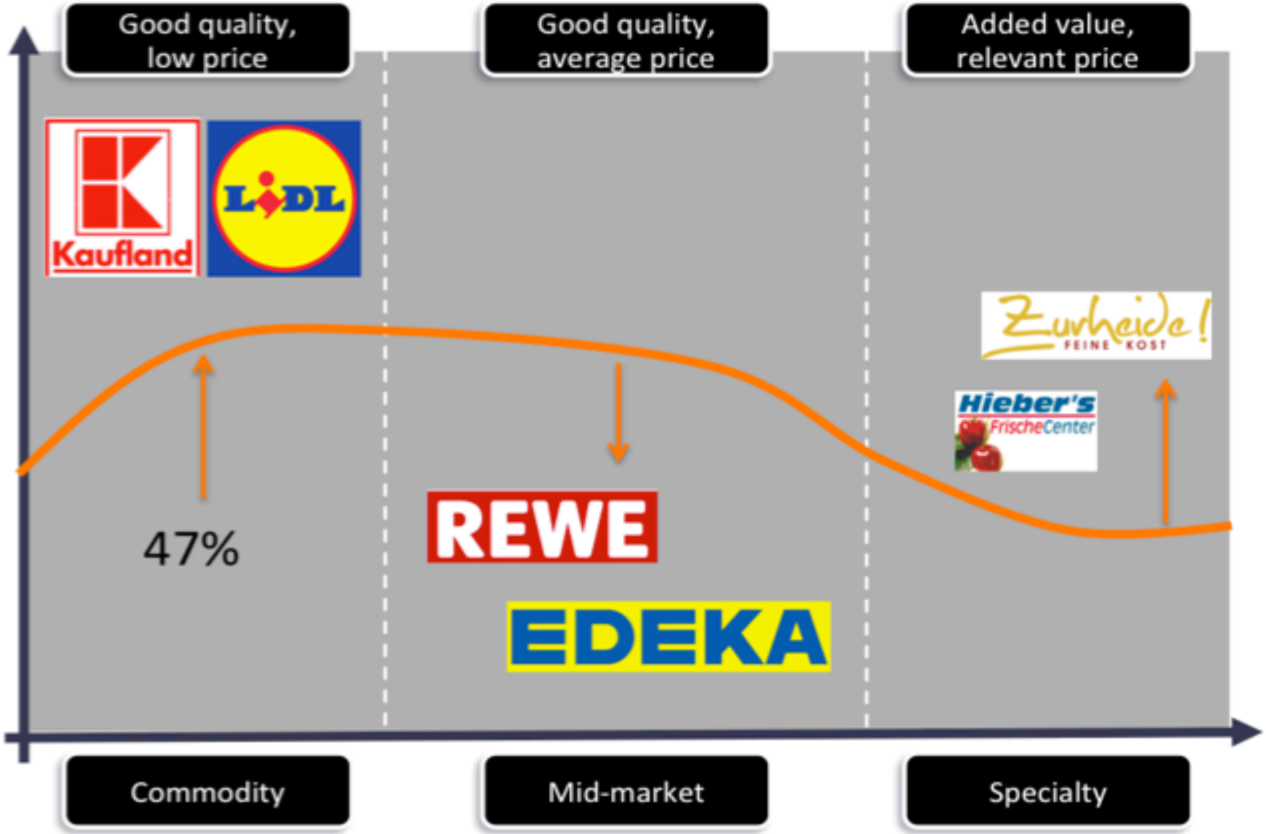
Good quality, average price

Added value, relevant price

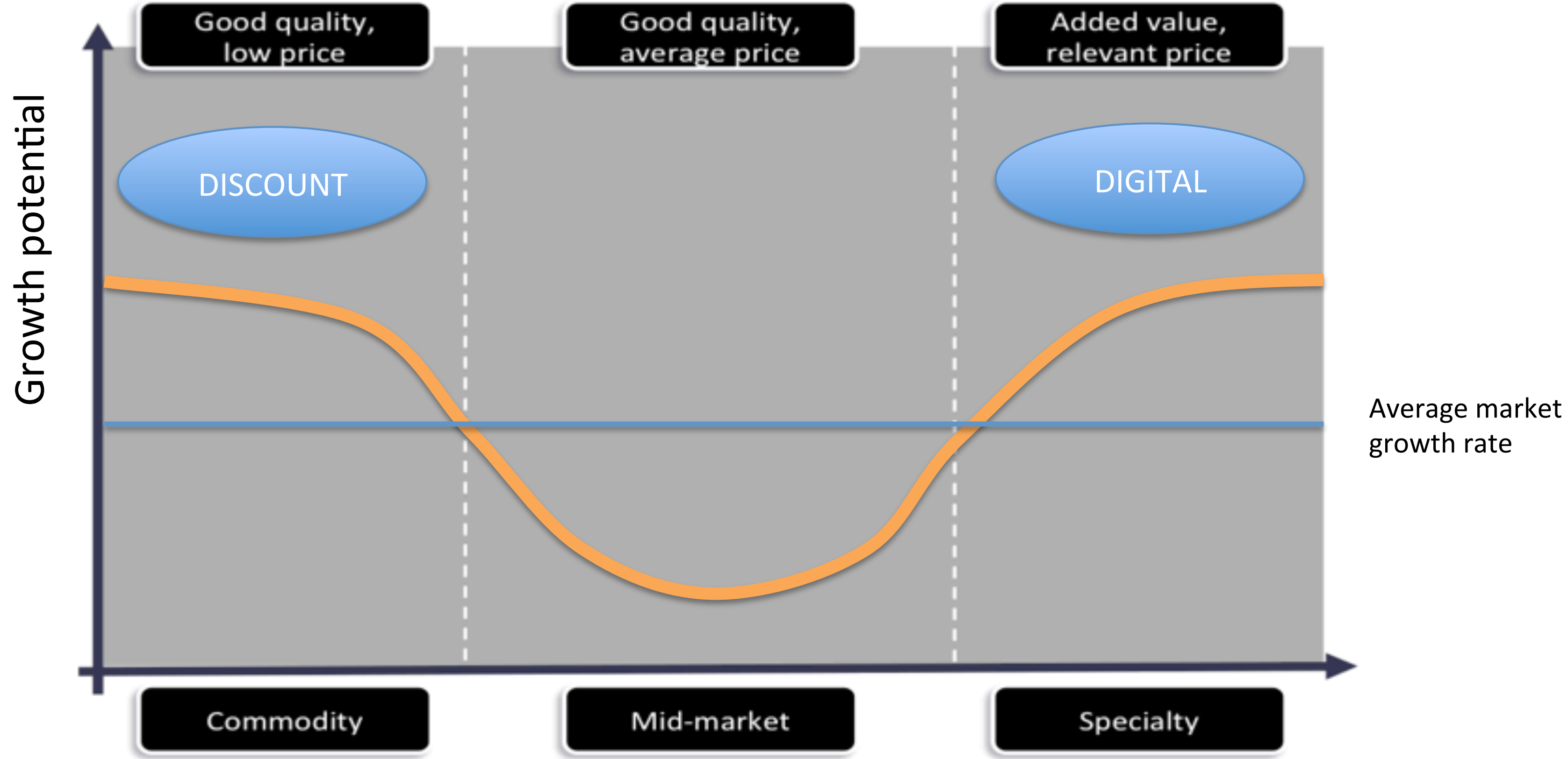
Commodity

Mid-market

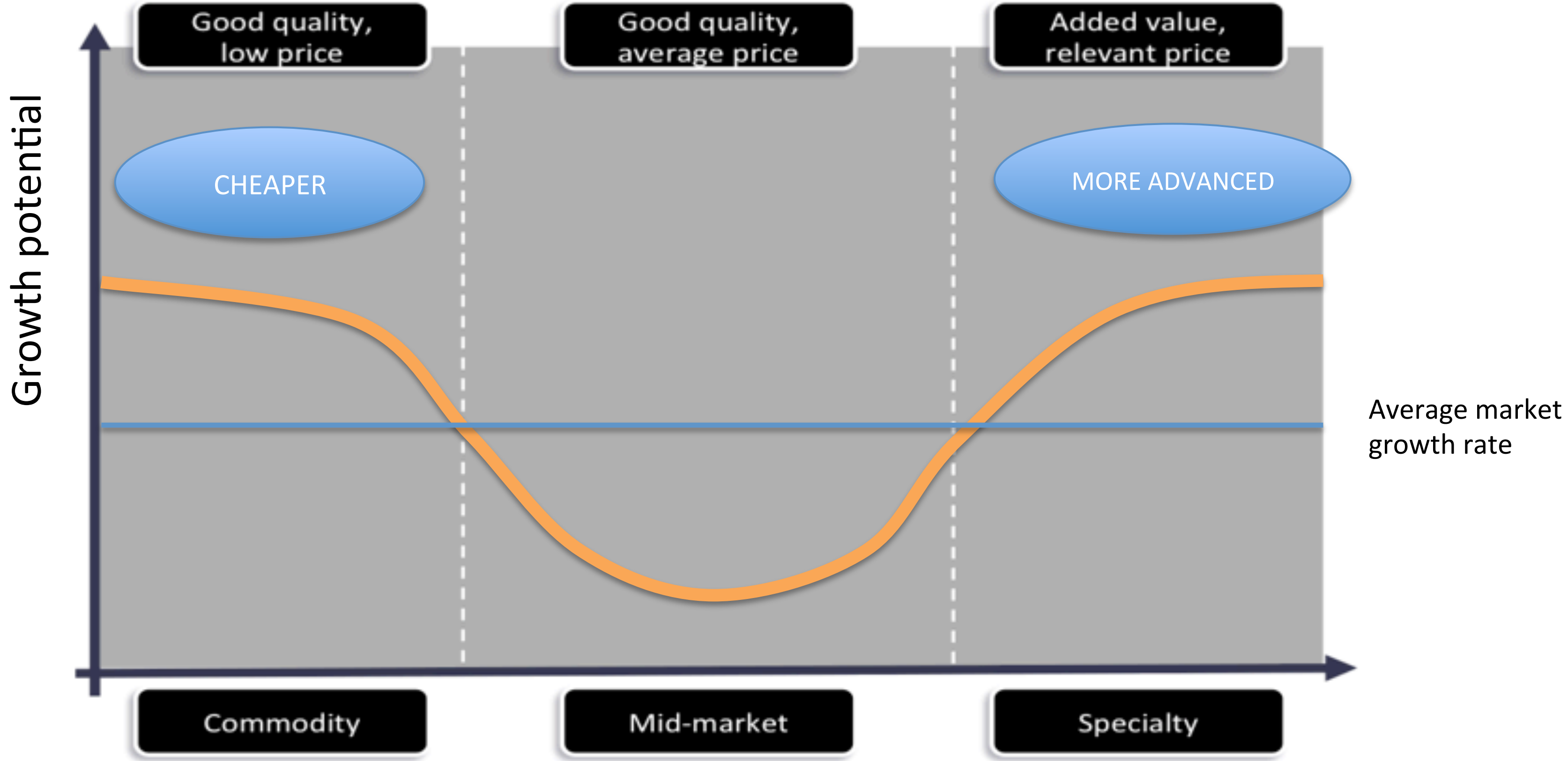
Specialty


Good quality, low price
Good quality, average price
Added value, relevant price
Kaufland
LIDL
47%
REWE
EDEKA
Zurheide! FEINE KOST
Hieber's FrischeCenter
Commodity
Mid-market
Specialty

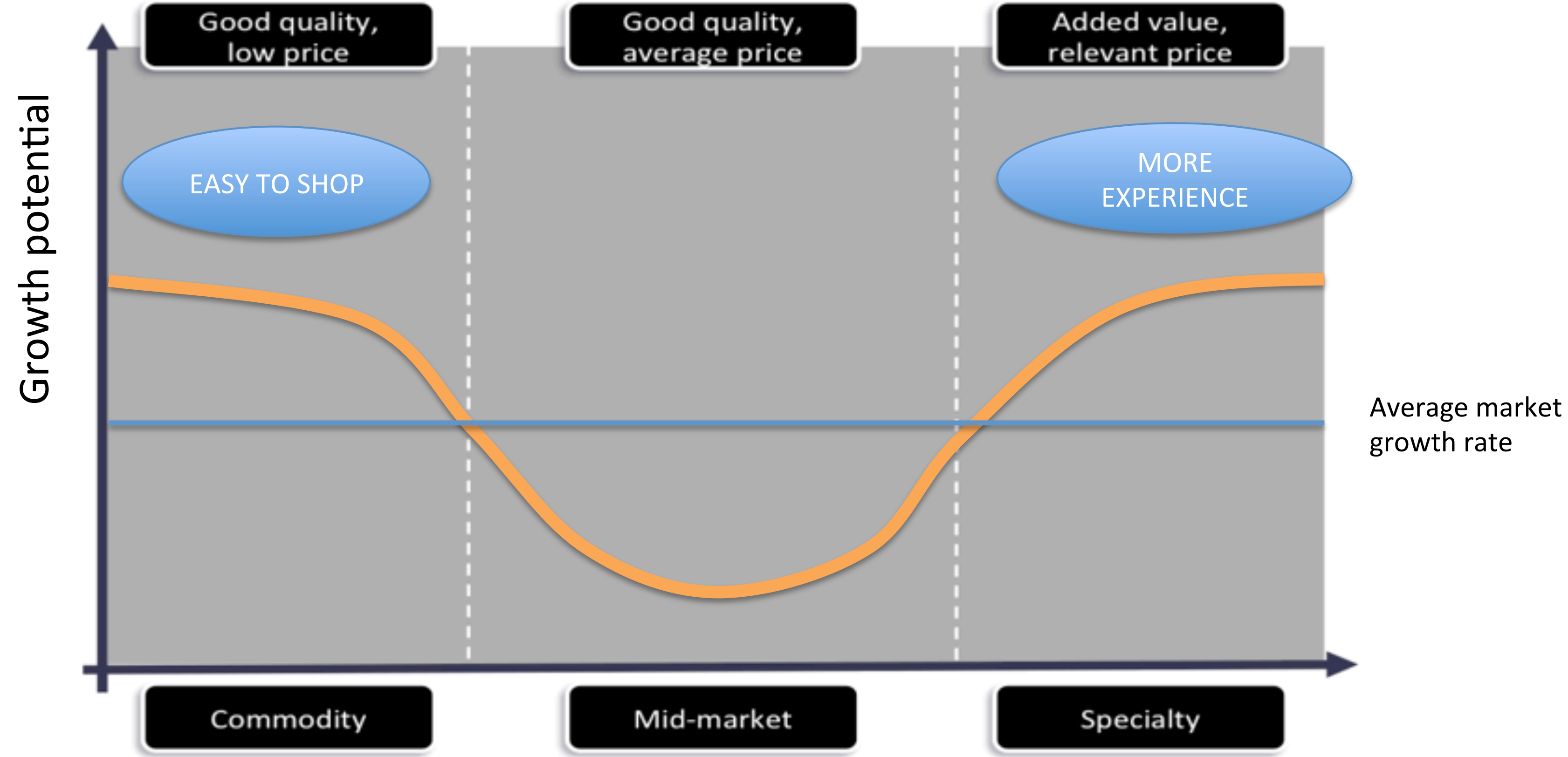
THE WELL-CURVE: POLARIZING CUSTOMERS



THE WELL-CURVE: POLARIZING CUSTOMERS



THE WELL-CURVE: POLARIZING CUSTOMERS



“The rise and impact of the hard discount business model”

THE SPECTACULAR RISE AND IMPACT OF HARD DISCOUNTERS

- Hard discounters distinguish themselves compared to regular grocery retailers as follows
  - Very limited assortment
  - Strong focus on private labels
  - Small and 'Spartan-like' stores
  - Unbeatable price quality

- In most countries traditional grocery retailers consistently lose sales and margin to hard discounters.

RETAIL
DISRUPTORS
The spectacular rise and impact of the hard discounters

RETAIL DISRUPTORS

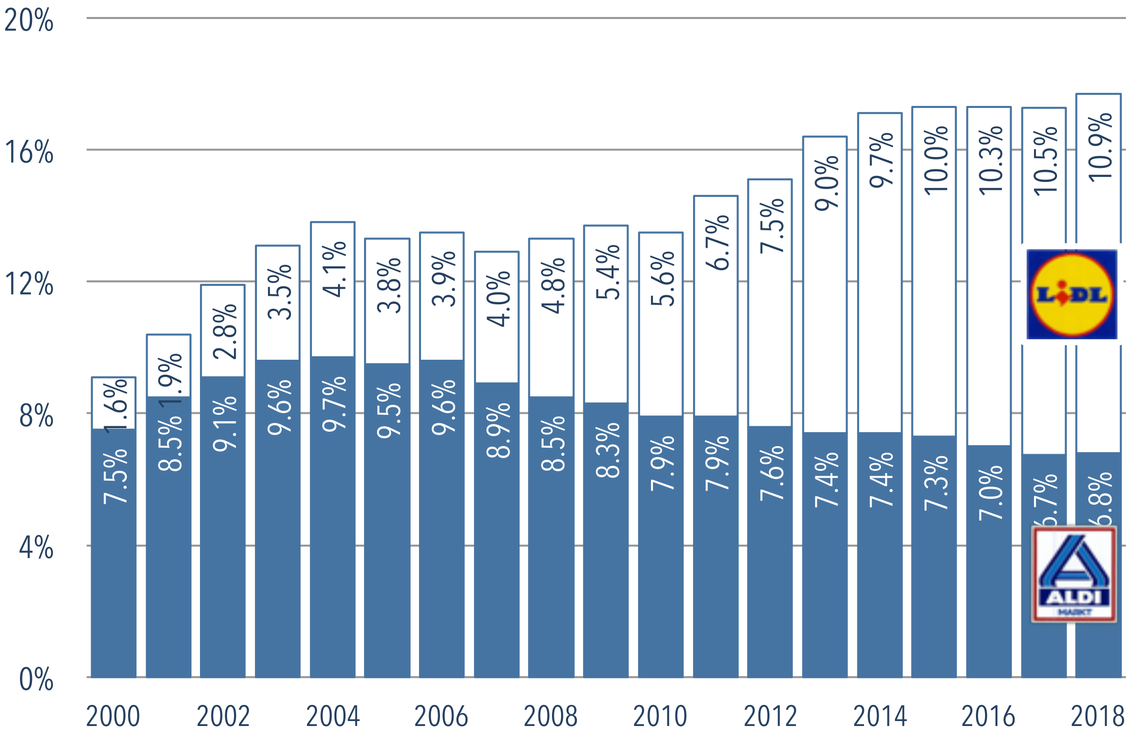
The spectacular rise and impact of the hard discounters

The impact of hard discounters

EFMI BUSINESS SCHOOL

HUGE IMPACT IN NETHERLANDS

MARKET SHARE ALDI AND LIDL 2000-2018



Bron: Nielsen, 2018

FUTURE OUTLOOK: HARD DISCOUNTERS WILL BE QUALITY DISCOUNTERS

OPERATION ANIKO

ANIKO =ALDI NORD INSTORE KONZEPT

All Aldi-Nord stores in Europe will me remodelled

Total remodelling cost: EUR 5,2 billion (EUR 1 mln per store)

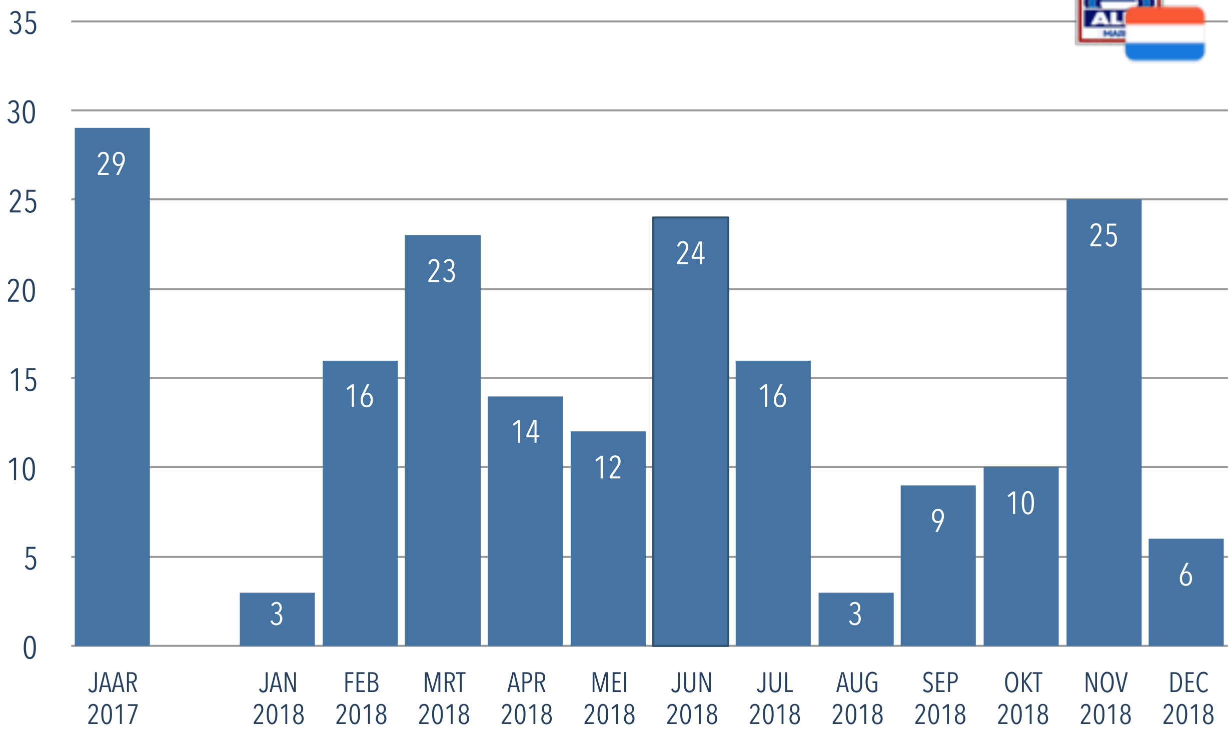
ANIKO is based on 8 pillars (see next)

1. Modern stores
2. Increased choice in vegetables & fruit
3. In-store oven, freshly baked bread
4. Fresh meat in standing shelves
5. Menu suggestions / recipies
6. More ready-to-eat assortment
7. More organic and fair trade
8. Energy saving refrigerators

OPERATION ANIKO: ALL ALDI NORD STORES WILL BE RENEWED

ANIKO-RENEWAL IN NL PER JAN 2019

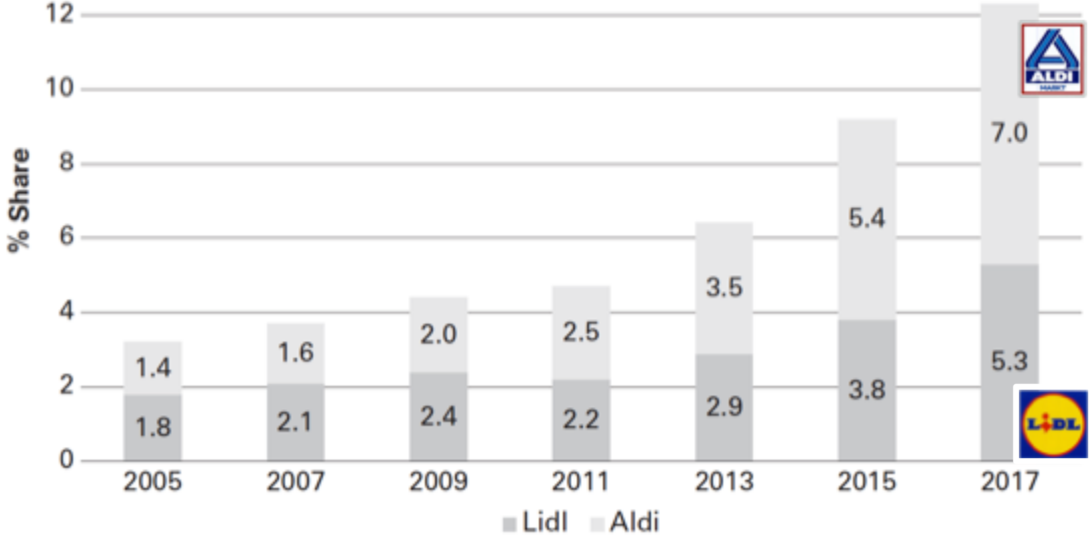
NUMBER OF STORES REMODELLED PER YEAR/MONTH



Bron: Inventarisatie EFMI Business School, december 2018

RETAIL
DISRUPTORS
The spectacular rise and impact of the hard discounters

DISRUPTIVE IMPACT IN THE UK



SOURCE Based on 2017 data from Kantar Worldpanel

The impact of hard discounters

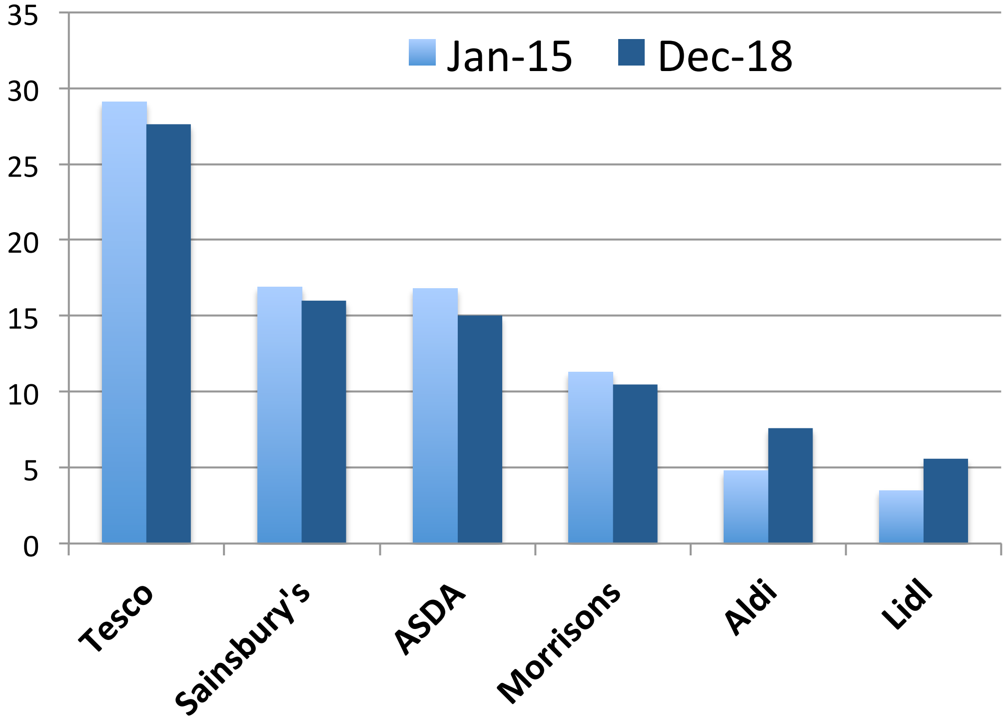
DISRUPTIVE IMPACT IN THE UK: 2015-2018

RETAIL DISRUPTORS

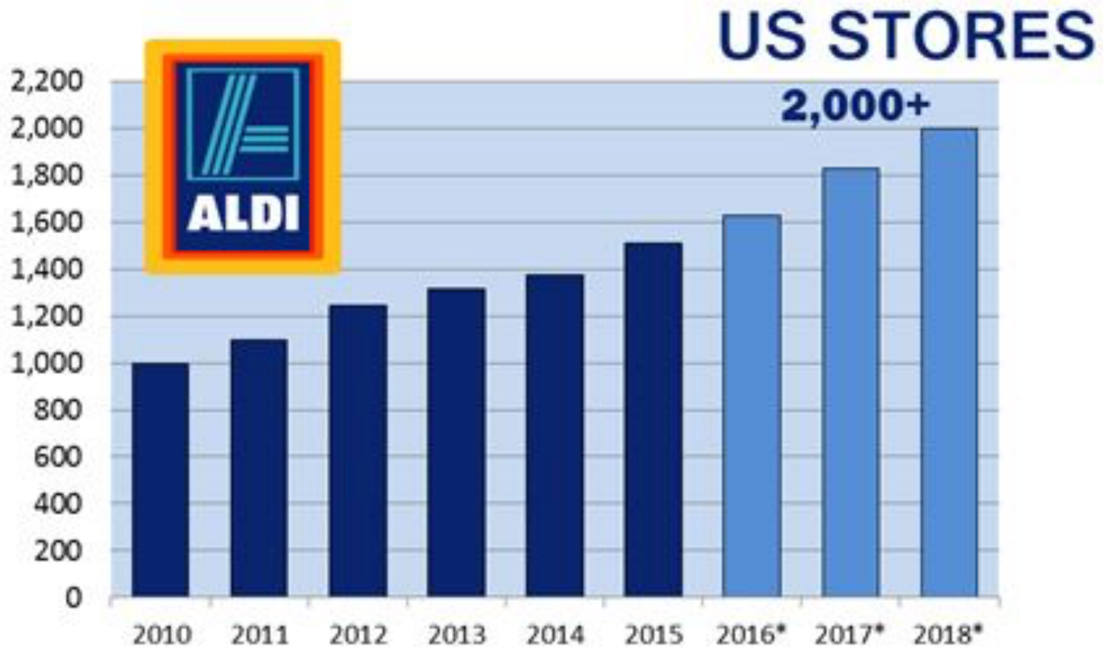
The spectacular rise and impact of the hard discounters

The impact of hard discounters

EFMI BUSINESS SCHOOL



IS THE US MARKET THE NEXT HARD DISCOUNT BATTLEGROUND?

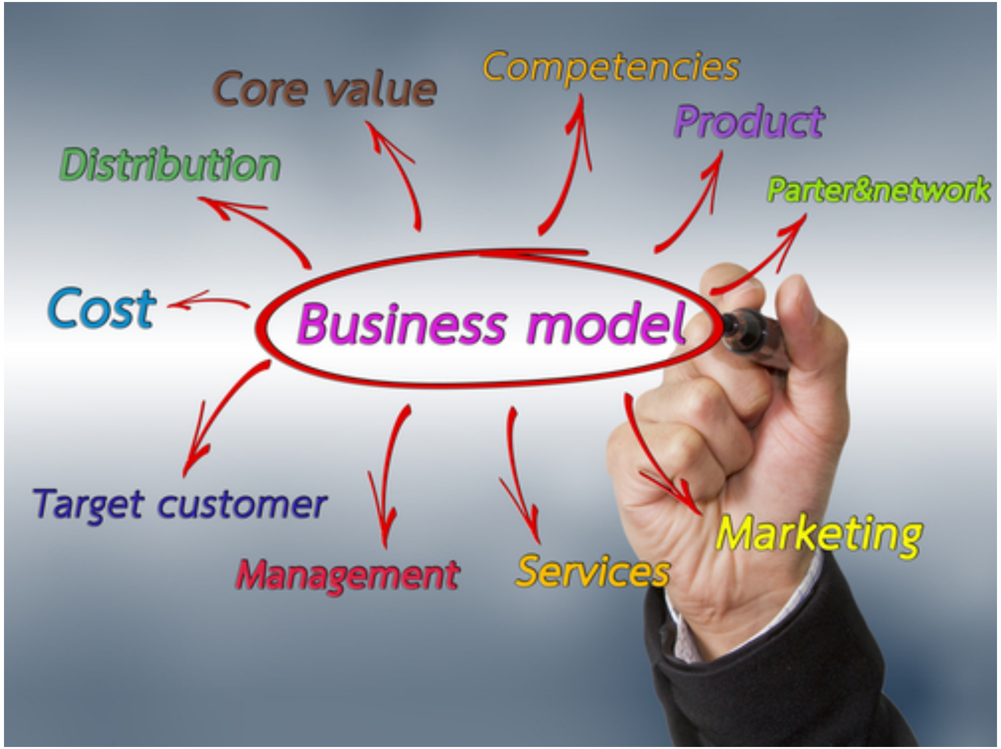


NEWS > RETAIL & FINANCIAL

Lidl US to acquire Best Market

Deal extends discount grocer's market reach into metro New York

The unique hard discount business model



EFMI BUSINESS SCHOOL

THE IMPACT OF ROTATION

- Hard discounter: 2.000 items, Euro 180.000 per store per week, average price per item 1,80 -> **rotation 50 per item per week**
- Conventional retailer: 20.000 items, Euro 240.000 per store per week, average price per item 2,40 **-> rotation 5 per item per week**

- With regard to fresh products, what is the impact of the difference in rotation for:
  - Freshness and food waste?
  - Out-of-stock?
  - In-store handling costs?
  - Working capital?
  - Buying office?

The impact of hard discounters

THE HARD DISCOUNTER BUSINESS MODEL

Drivers of competitive sustainable advantages

Low cost driver 1:
Efficient retail operation

- Low HQ costs
- Efficient warehouse and transportation
- Efficient store operation
- Smart packaging

Low cost driver 2:
Knowledgeable and efficient procurement

- National brand as quality benchmark
- Buying large volumes at low prices
- Deep knowledge of supply chain

Low cost driver 3:
Efficient financial management

- Low capital intensity
- High sales per m2
- High rotation -> good cash position
- Solid operating income, high ROI

HUGE PRICE ADVANTAGE HARD DISCOUNTERS

RETAIL DISRUPTORS

The spectacular rise and impact of the hard discounters

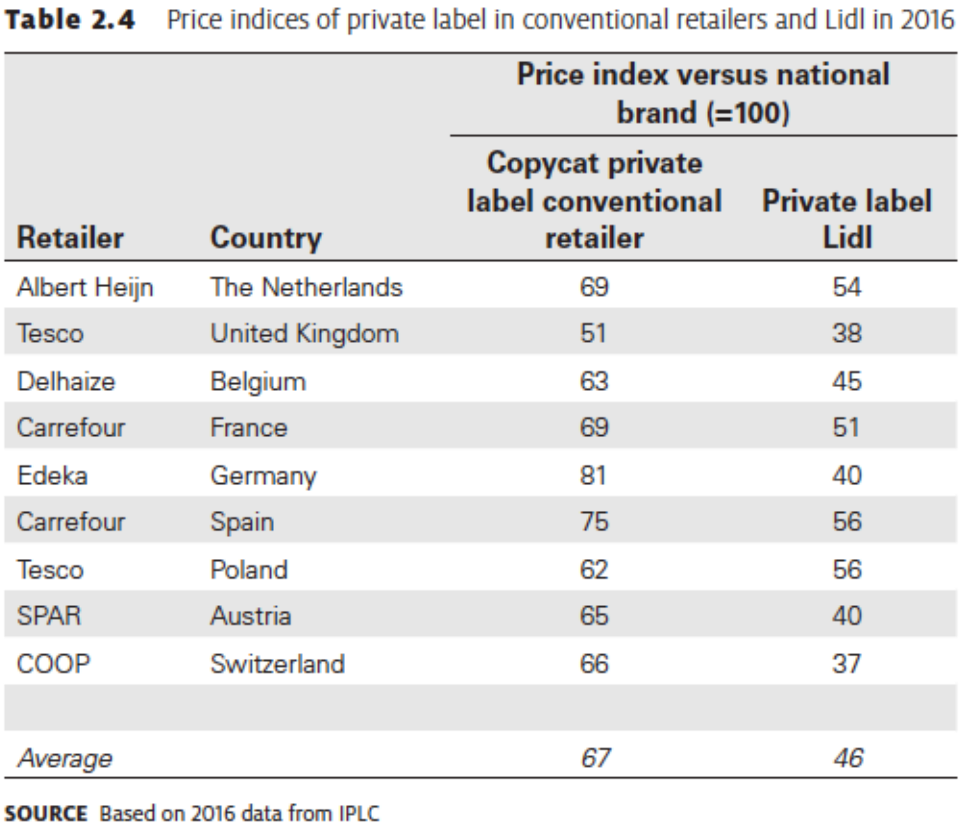


Table 2.4 Price indices of private label in conventional retailers and Lidl in 2016

Retailer	Country	Price index versus national brand (=100) Copycat private label conventional retailer	Private label Lidl
Albert Heijn	The Netherlands	69	54
Tesco	United Kingdom	51	38
Delhaize	Belgium	63	45
Carrefour	France	69	51
Edeka	Germany	81	40
Carrefour	Spain	75	56
Tesco	Poland	62	56
SPAR	Austria	65	40
COOP	Switzerland	66	37
Average		*67*	*46*

SOURCE Based on 2016 data from IPLC

The impact of hard discounters

EFMI BUSINESS SCHOOL

RETAIL DISRUPTORS

The spectacular rise and impact of the hard discounters

The impact of hard discounters

AND QUALITY IS ALSO (VERY) GOOD

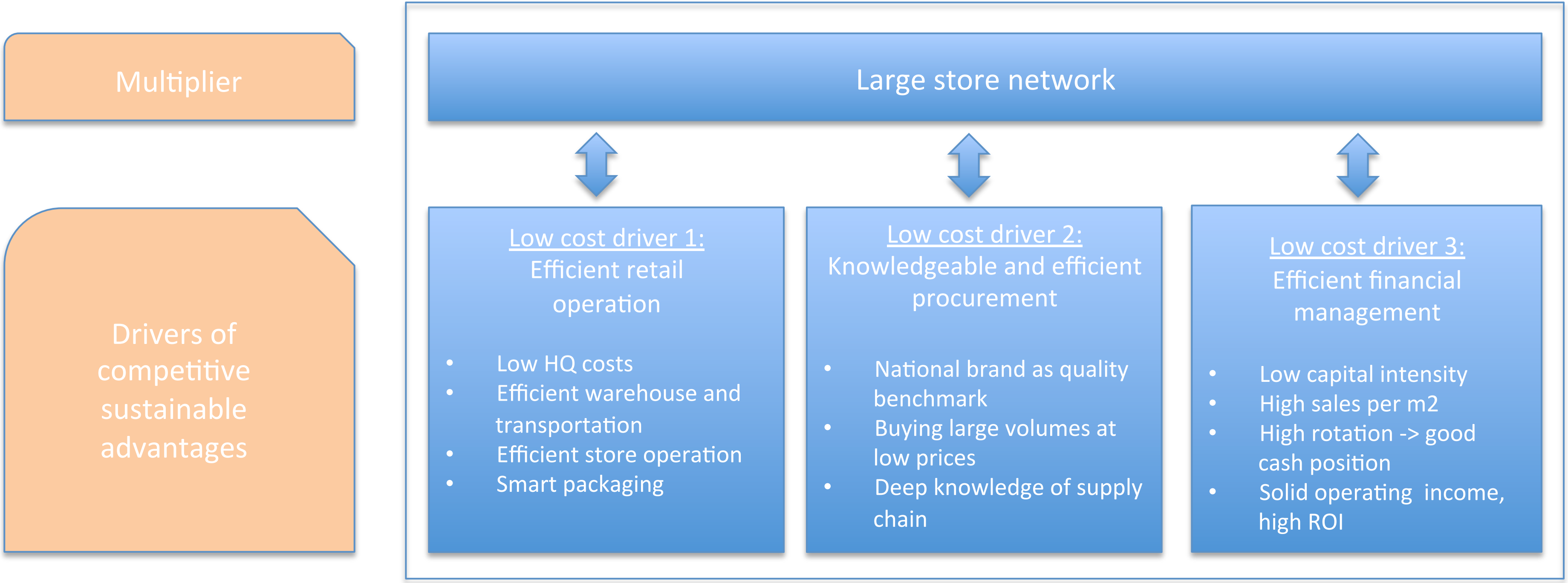
Dishwasher tablets		Laundry detergent		Diapers		Orange juice		Ground coffee	
Aldi	78	Lidl	83	Aldi	77	Sainsbury's	77	Aldi	82
Lidl	71	Tesco	82	Lidl	63	Lidl	76	Sainsbury's	73
Tesco	49	Sainsbury's	80	Tesco	61	Morrisons	75	Lidl	70
Morrisons	48	Aldi	79	Asda	60	Tesco	75	Asda	70
		Morrisons	60	Morrisons	52	Aldi	74	Morrisons	69
				Sainsbury's	50	Asda	74		

NOTE *Which?* did not always report the quality rating for every Big Four (Tesco, Sainsbury's, Asda, and Morrison) retailer.
SOURCE Based on various issues of *Which* (2016, 2018)?

Stiftung Warentest test

OLIVENÖLTEST DER STIFTUNG WARENTEST: ALDI SÜD 2018 TESTSIEGER

THE HARD DISCOUNTER BUSINESS MODEL



Multiplier

Drivers of competitive sustainable advantages

Large store network

Low cost driver 1:
Efficient retail operation

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Low cost driver 3:
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THE HARD DISCOUNTER BUSINESS MODEL

Customer value proposition

Unbeatable price-quality

Multiplier

Large store network

Drivers of competitive sustainable advantages

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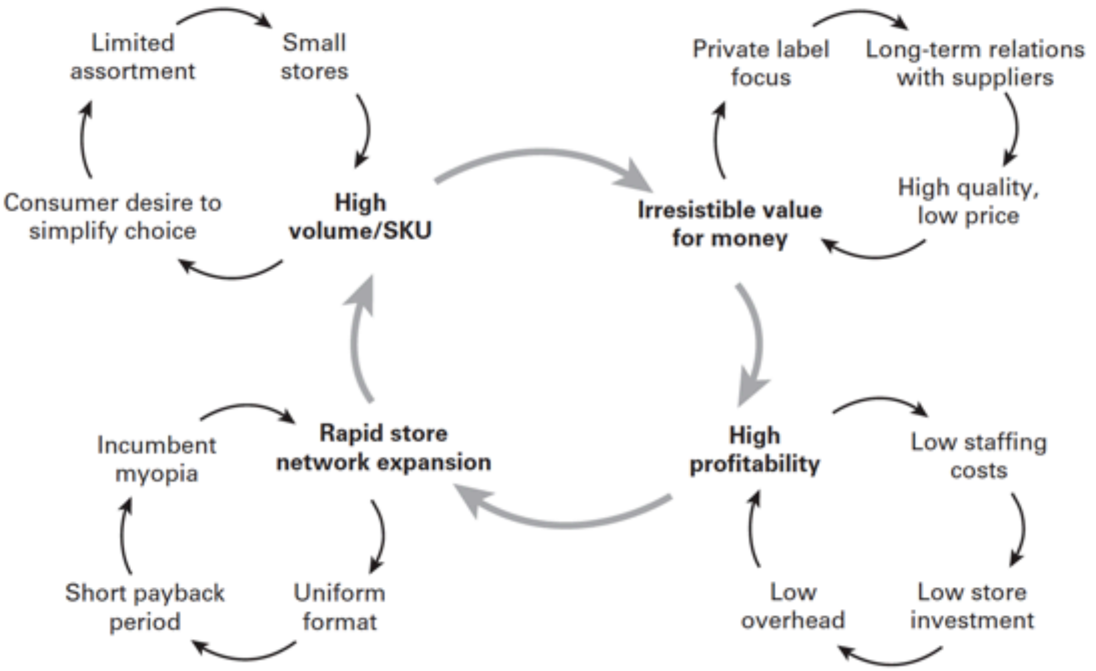
THE HARD DISCOUNTER BUSINESS MODEL

The impact of hard discounters

Figure 2.1 Hard discounter business model



VERY SOLID FINANCIAL PERFORMANCE OF HD'S


RETAIL DISRUPTORS

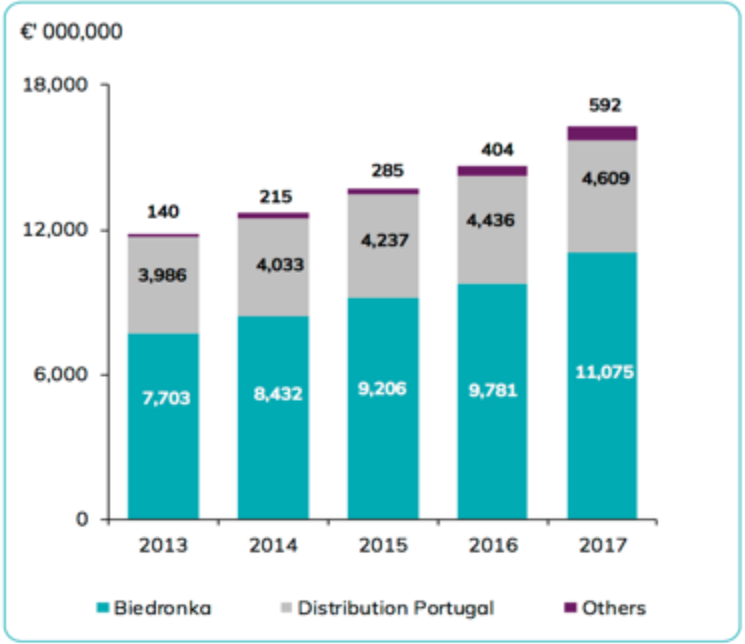
The spectacular rise and impact of the hard discounters

The impact of hard discounters

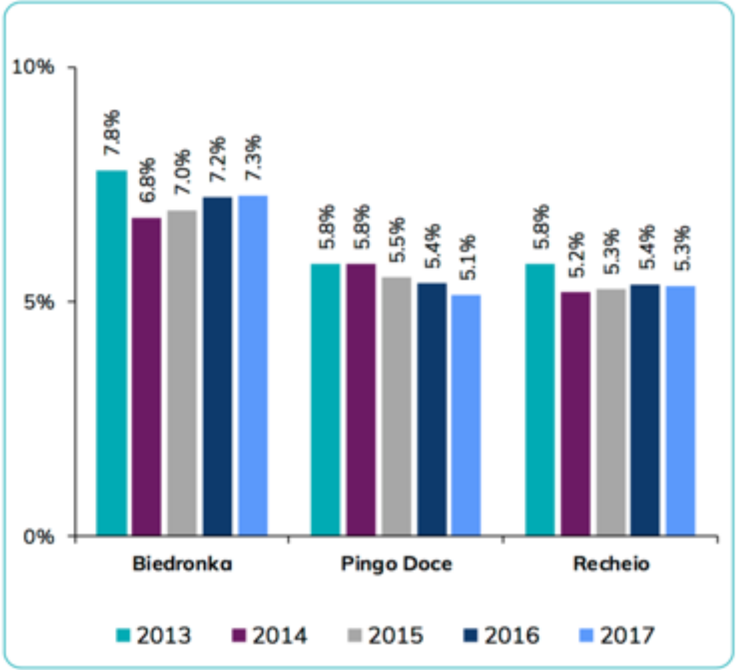
	Conventional grocery retailer	Hard discounter	Hard discounter advantage
Revenues	100	100	
Cost of goods sold (including product loss)	(73)	(81)	
Gross margin	27	19	–8
Store-related operating costs	(12)	(7)	+5
– *Labour*	*(8)*	*(5)*	
– *Other costs (rent, depreciation, utilities…)*	*(4)*	*(2)*	
Operating margin (store based)	15	12	–3
Overhead (SG&A)	(11)	(6.5)	+4.5
– *Central staffing*	*(3)*	*(1.5)*	
– *Logistical costs*	*(4)*	*(3)*	
– *Marketing*	*(4)*	*(2)*	
Earnings before interest and taxes	4	5.5	+1.5

FINANCIAL PERFORMANCE BIEDRONKA

Sales & Services



EBITDA Margin



“How does hard discount growth impact conventional retailers?”

THE RETAIL SPACE MAP BEFORE HD ENTRANCE

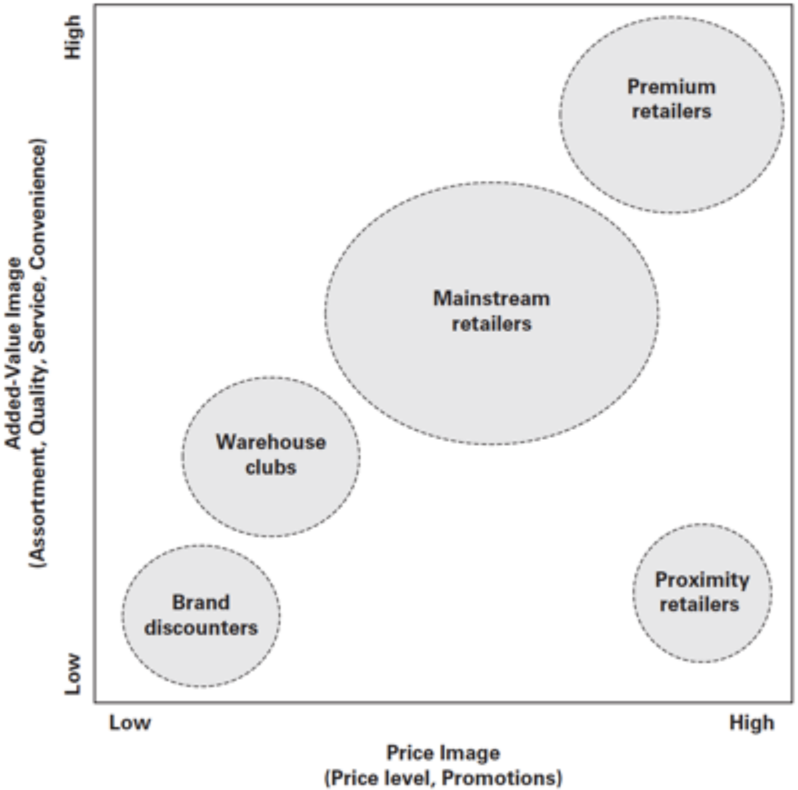
RETAIL DISRUPTORS

The spectacular rise and impact of the hard discounters

The impact of hard discounters

EFMI BUSINESS SCHOOL

Figure 6.1 Retail market space map before entry of hard discounters



IMPACT OF HD'ER ENTRENCE ON SHOPPER DECISION MAKING PROCESS

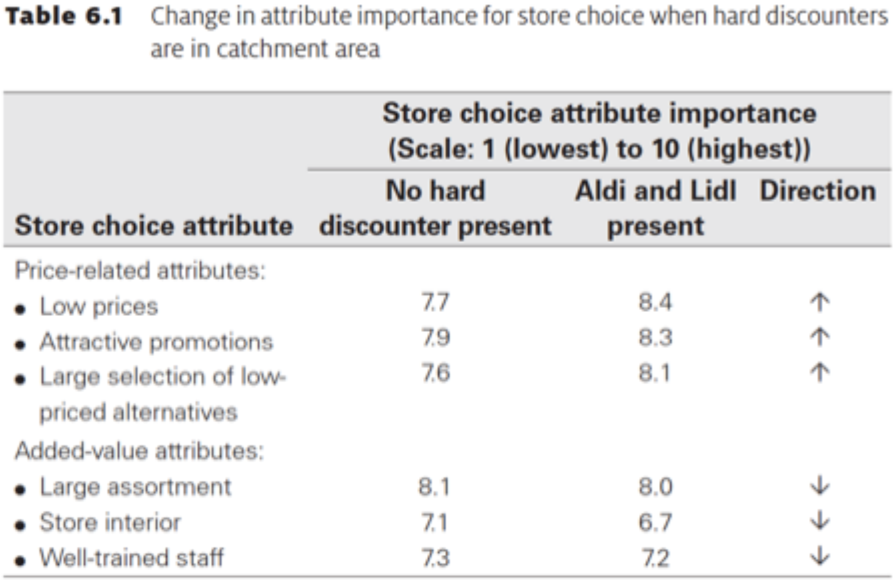
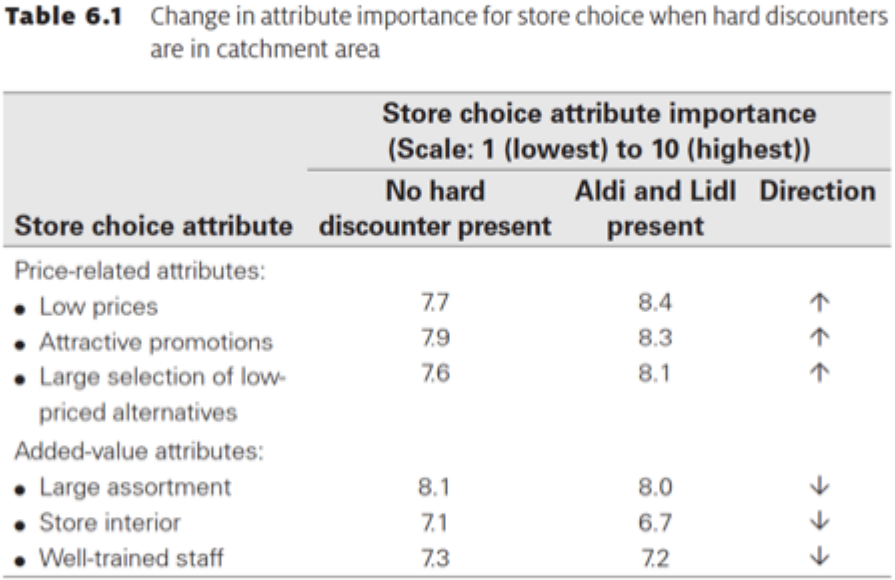


Table 6.1 Change in attribute importance for store choice when hard discounters are in catchment area

	Store choice attribute importance (Scale: 1 (lowest) to 10 (highest))		
Store choice attribute	**No hard discounter present**	**Aldi and Lidl present**	**Direction**
Price-related attributes:			
• Low prices	7.7	8.4	↑
• Attractive promotions	7.9	8.3	↑
• Large selection of low-priced alternatives	7.6	8.1	↑
Added-value attributes:			
• Large assortment	8.1	8.0	↓
• Store interior	7.1	6.7	↓
• Well-trained staff	7.3	7.2	↓

Consumers tend to become <u>more price focussed</u> and less focussed on added value

IMPACT OF HD'ER ENTRENCE ON SHOPPER DECISION MAKING PROCESS



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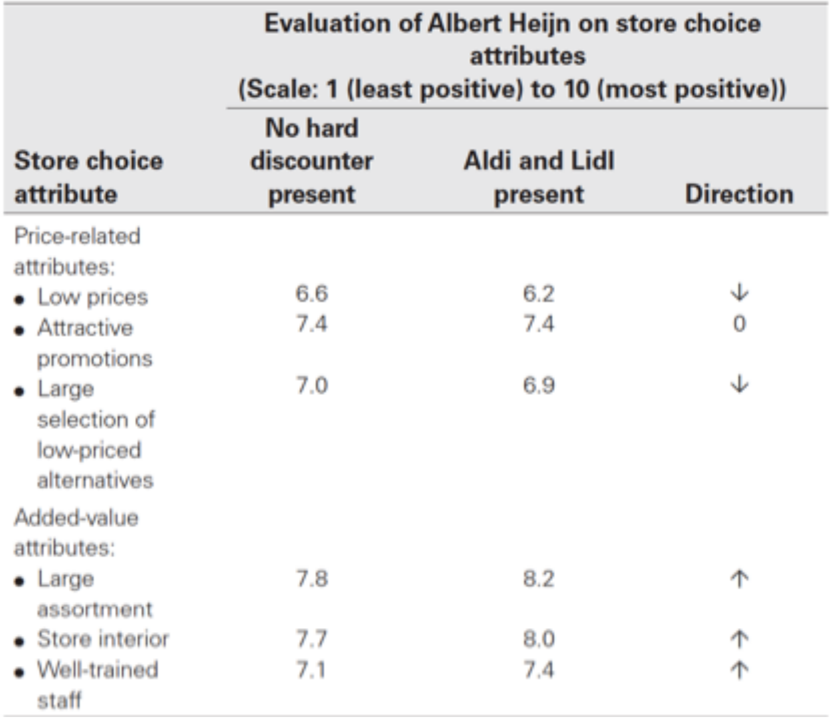


Store choice attribute	Evaluation of Albert Heijn on store choice attributes (Scale: 1 (least positive) to 10 (most positive))		
	No hard discounter present	Aldi and Lidl present	Direction
Price-related attributes:			
• Low prices	6.6	6.2	↓
• Attractive promotions	7.4	7.4	0
• Large selection of low-priced alternatives	7.0	6.9	↓
Added-value attributes:			
• Large assortment	7.8	8.2	↑
• Store interior	7.7	8.0	↑
• Well-trained staff	7.1	7.4	↑

➡ Consumers tend to become more price focussed and less focussed on added value

➡ Consumers tend to evaluate conventional retailers less on price and better on added value

HARD DISCOUNTERS CAUSE A ‘CONTRAST’ EFFECT

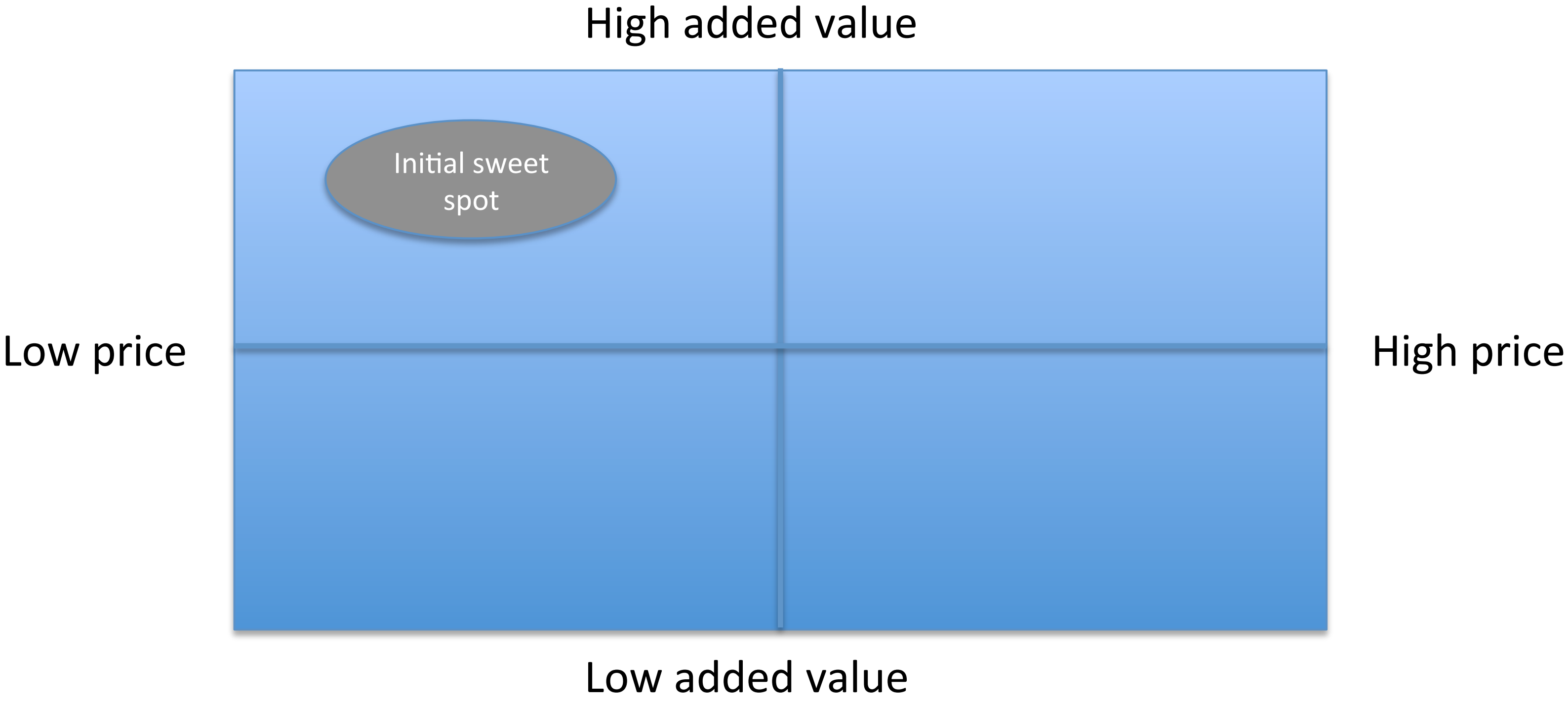
High added value

Low price

High price

Low added value

HARD DISCOUNTERS CAUSE A ‘CONTRAST’ EFFECT



High added value

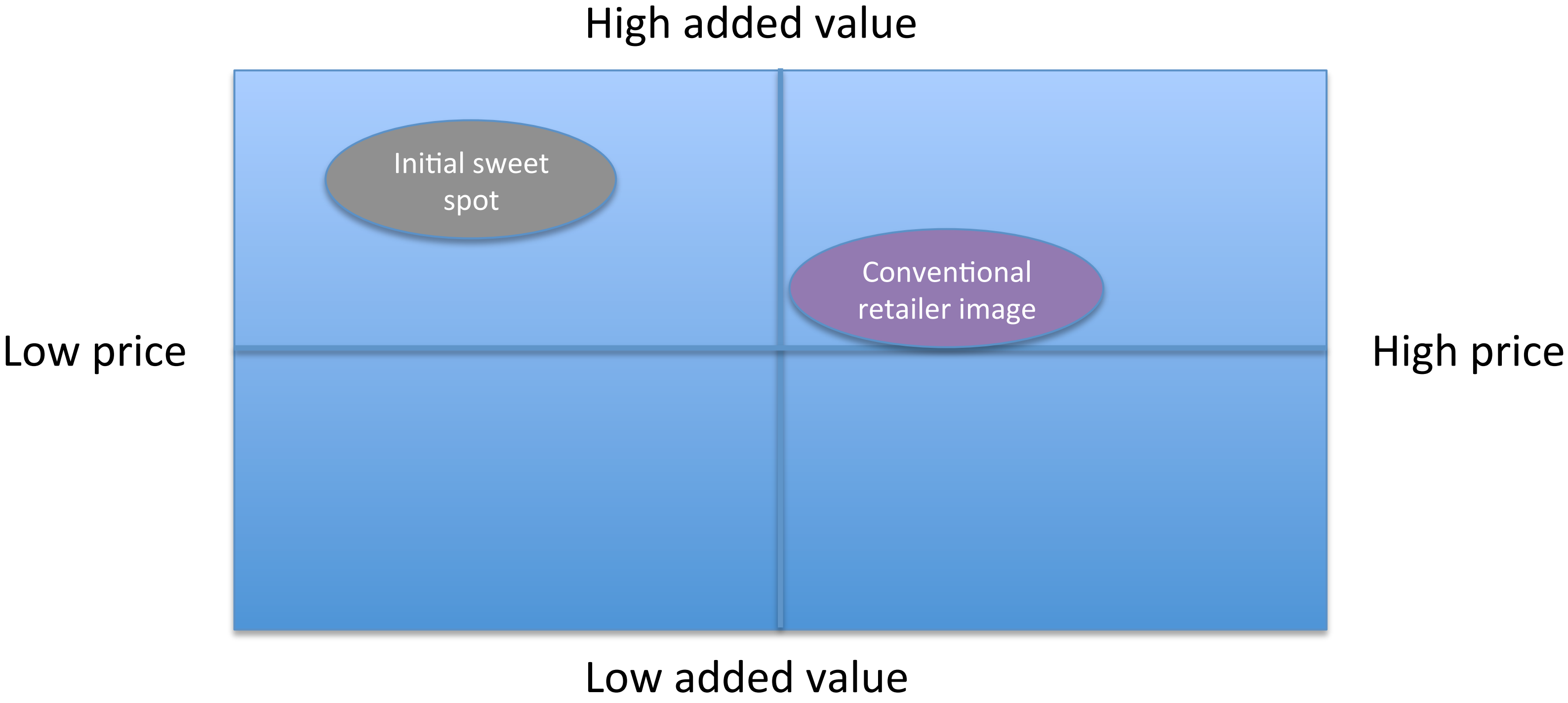
Low price

Initial sweet spot

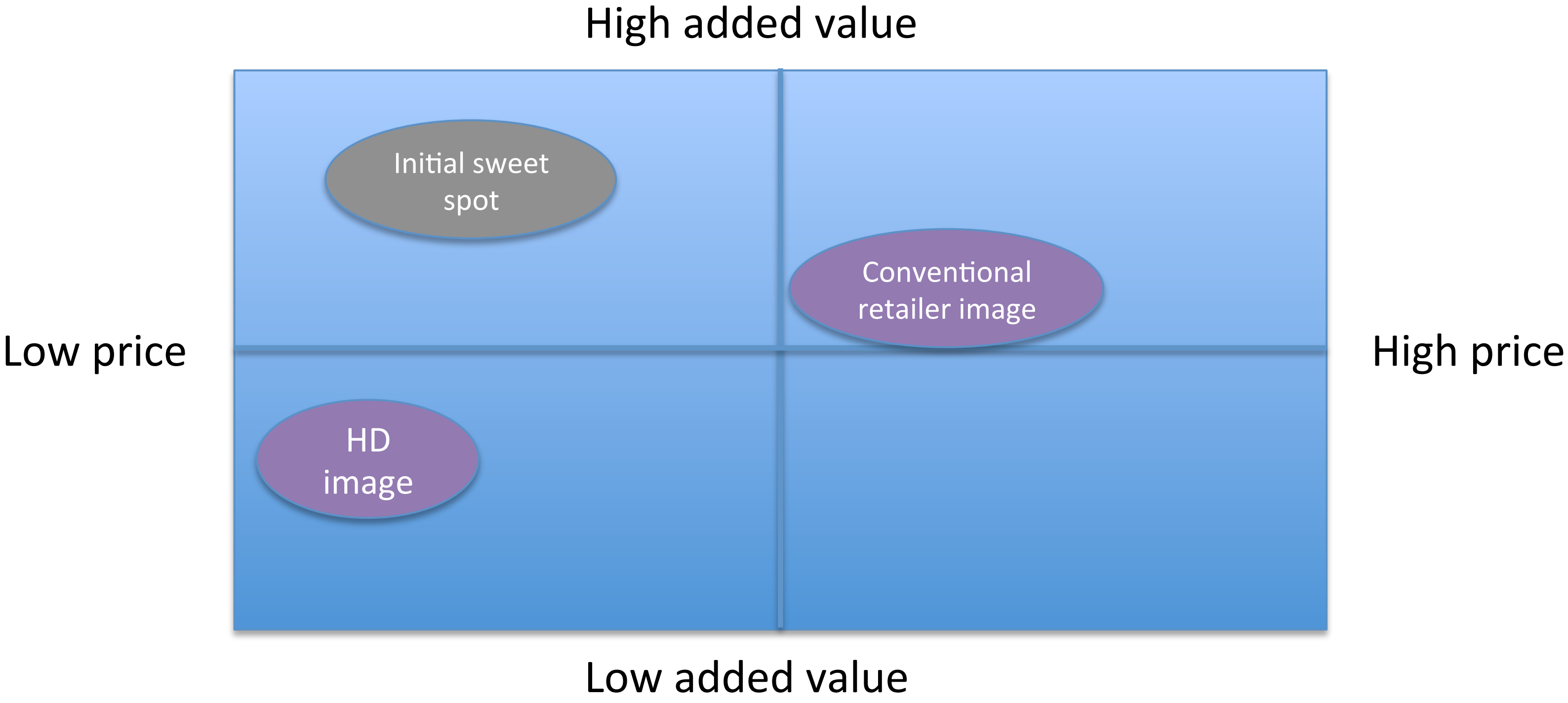
High price

Low added value

HARD DISCOUNTERS CAUSE A ‘CONTRAST’ EFFECT



HARD DISCOUNTERS CAUSE A 'CONTRAST' EFFECT



High added value

Low price

High price

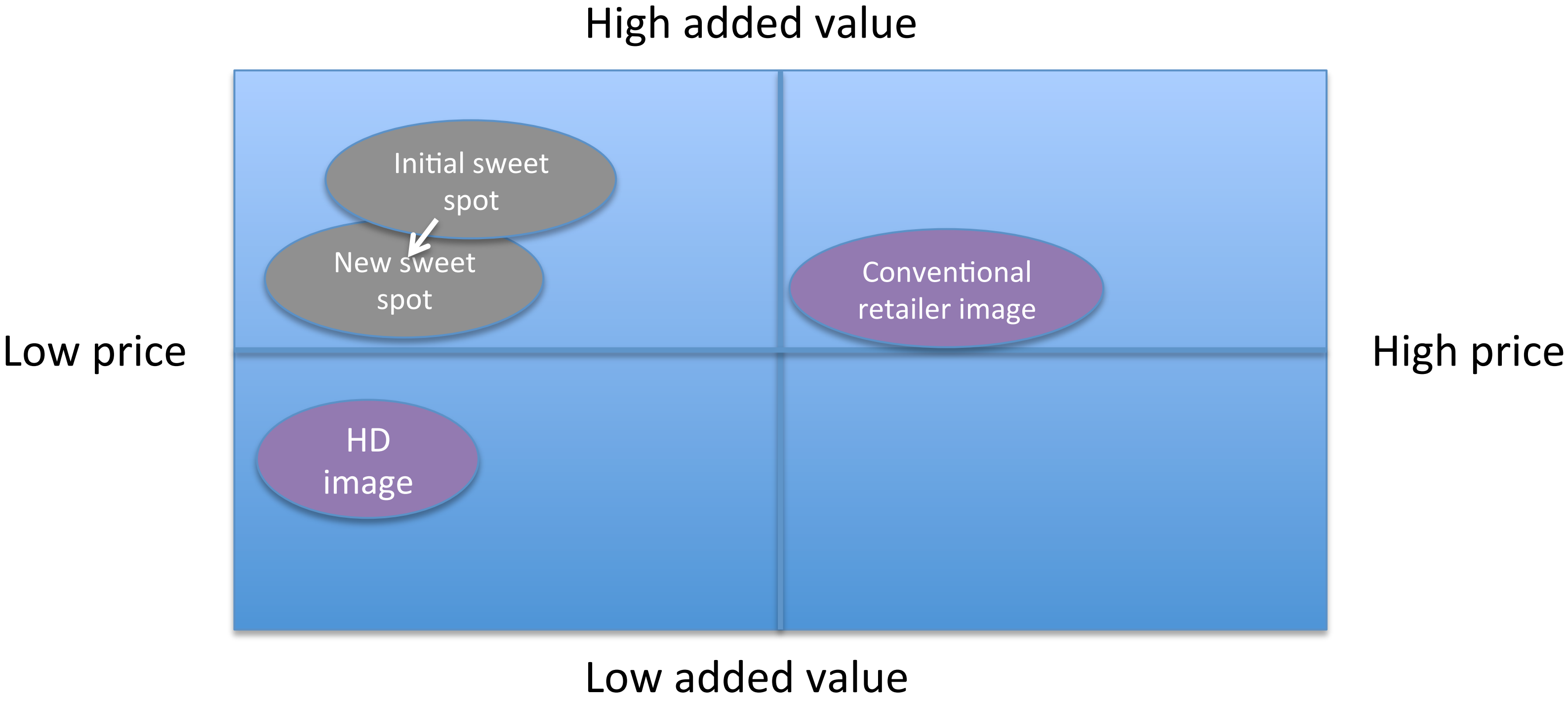
Low added value

Initial sweet spot

Conventional retailer image

HD image

HARD DISCOUNTERS CAUSE A ‘CONTRAST’ EFFECT



High added value

Low price

Initial sweet spot

New sweet spot

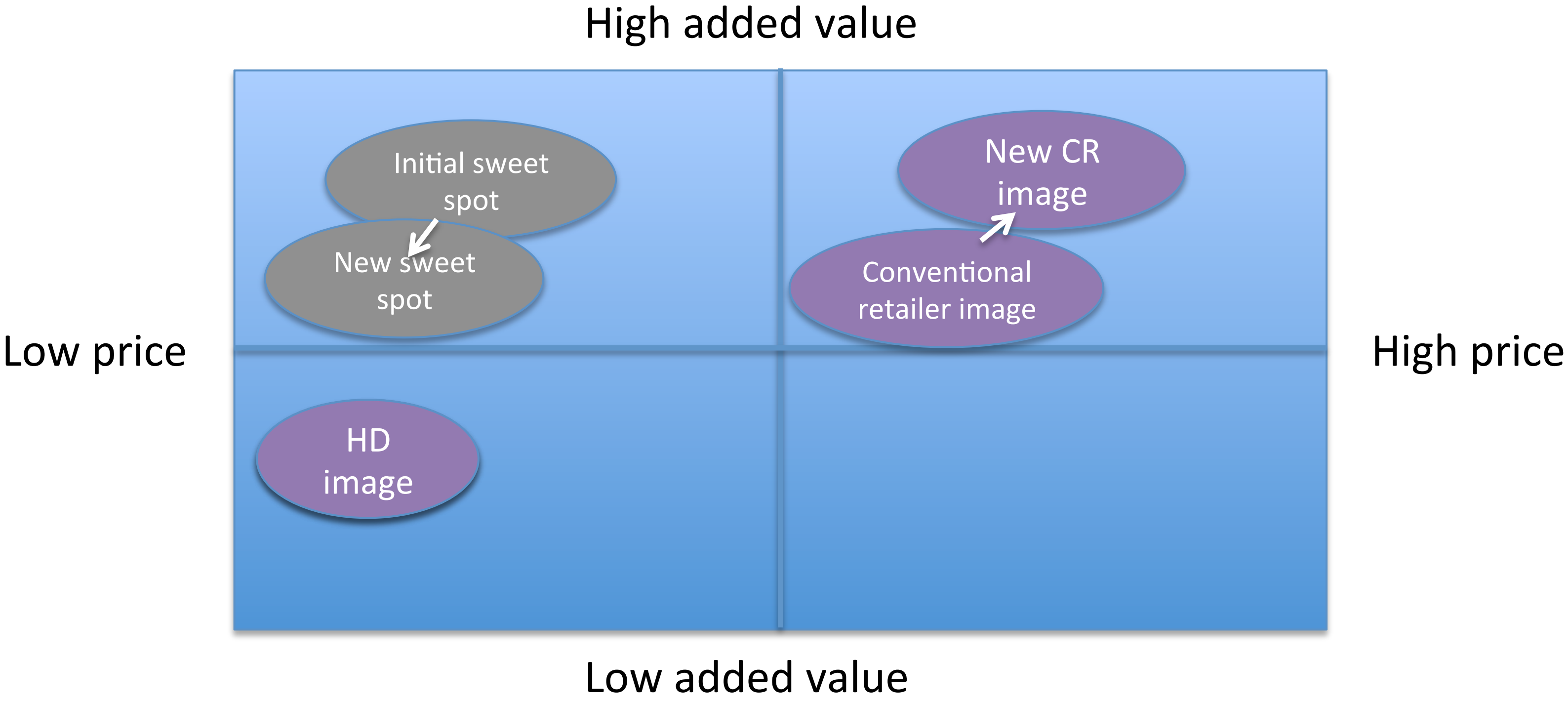
Conventional retailer image

High price

HD image

Low added value

HARD DISCOUNTERS CAUSE A 'CONTRAST' EFFECT



High added value

Low price

High price

Low added value

Initial sweet spot

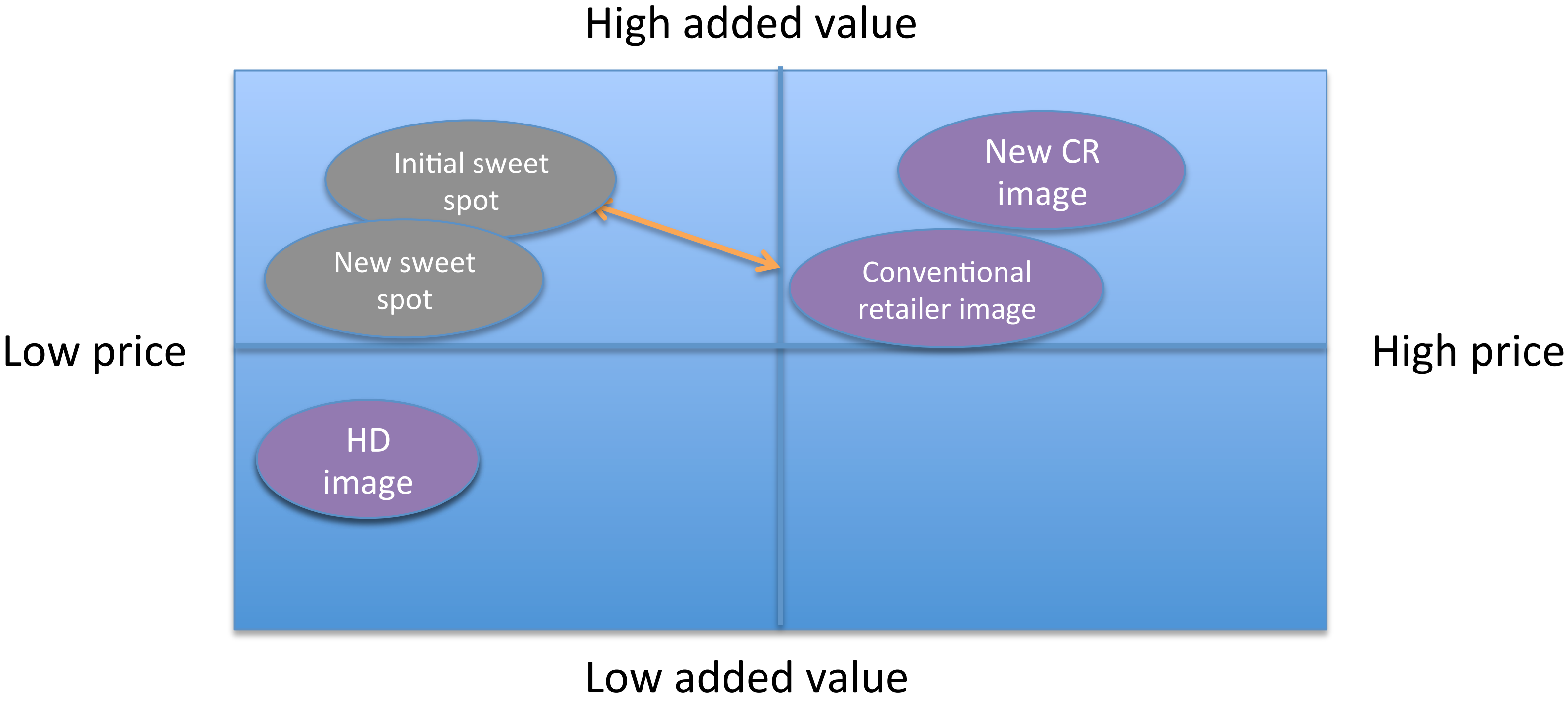
New sweet spot

New CR image

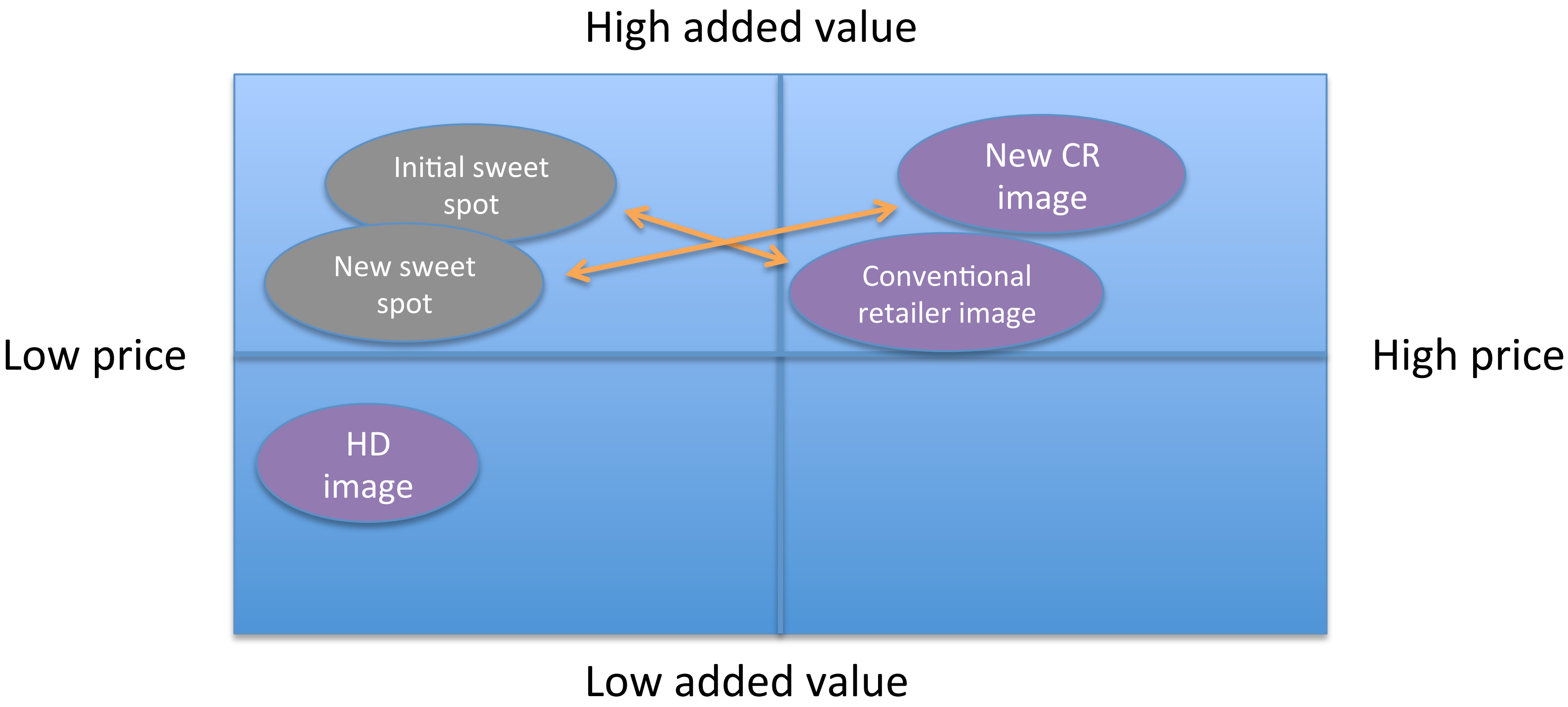
Conventional retailer image

HD image

HARD DISCOUNTERS CAUSE A ‘CONTRAST’ EFFECT



HARD DISCOUNTERS CAUSE A ‘CONTRAST’ EFFECT



High added value

Initial sweet spot

New CR image

New sweet spot

Conventional retailer image

Low price

High price

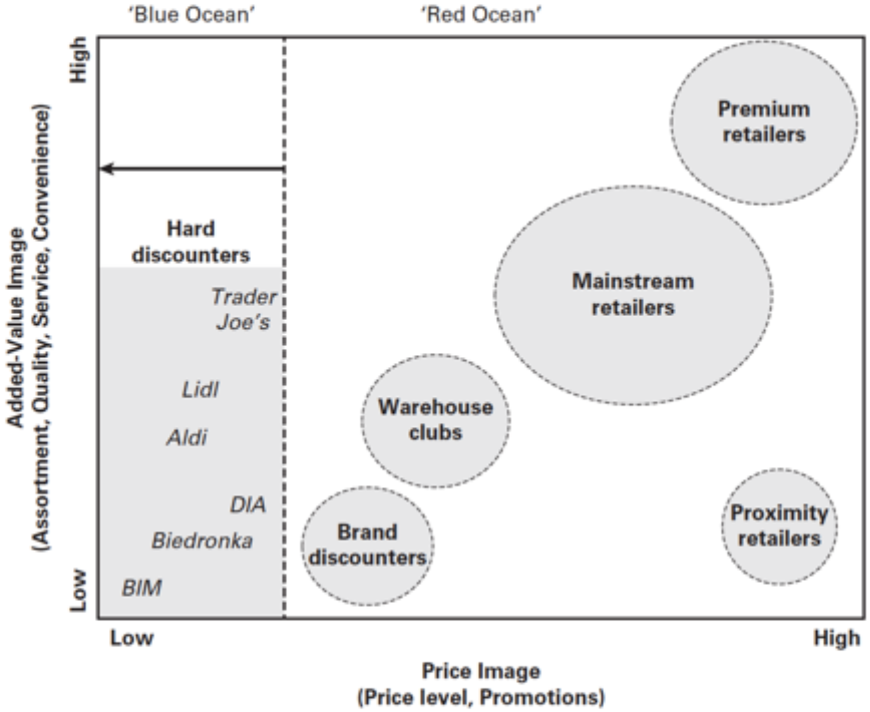
HD image

Low added value

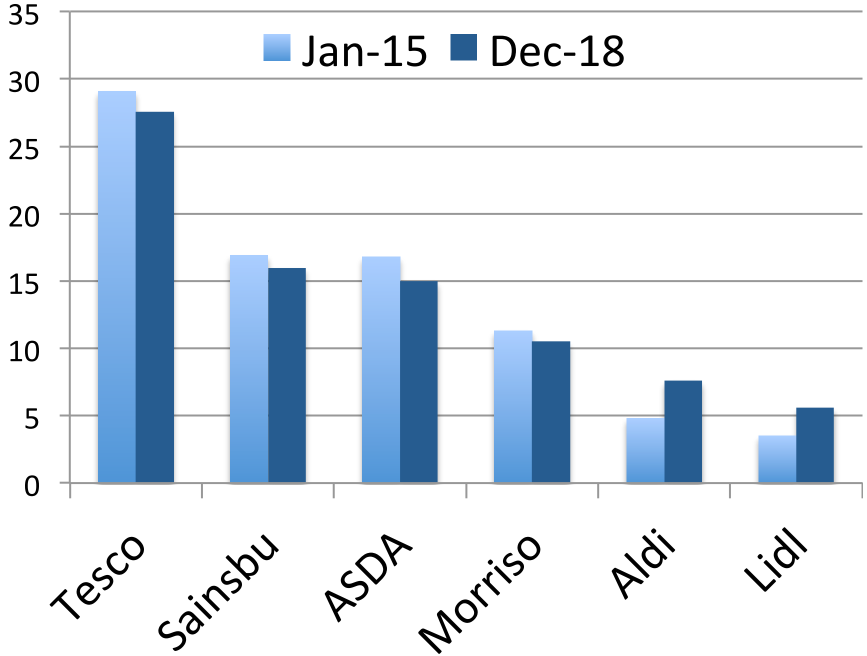
HD HAVE CREATED THEIR OWN BLUE OCEAN

The impact of hard discounters

Figure 6.2 Retail market space map after entry of hard discounters



DEVESTATING IMPACT OF HARD DISCOUNT GROWTH IN UK

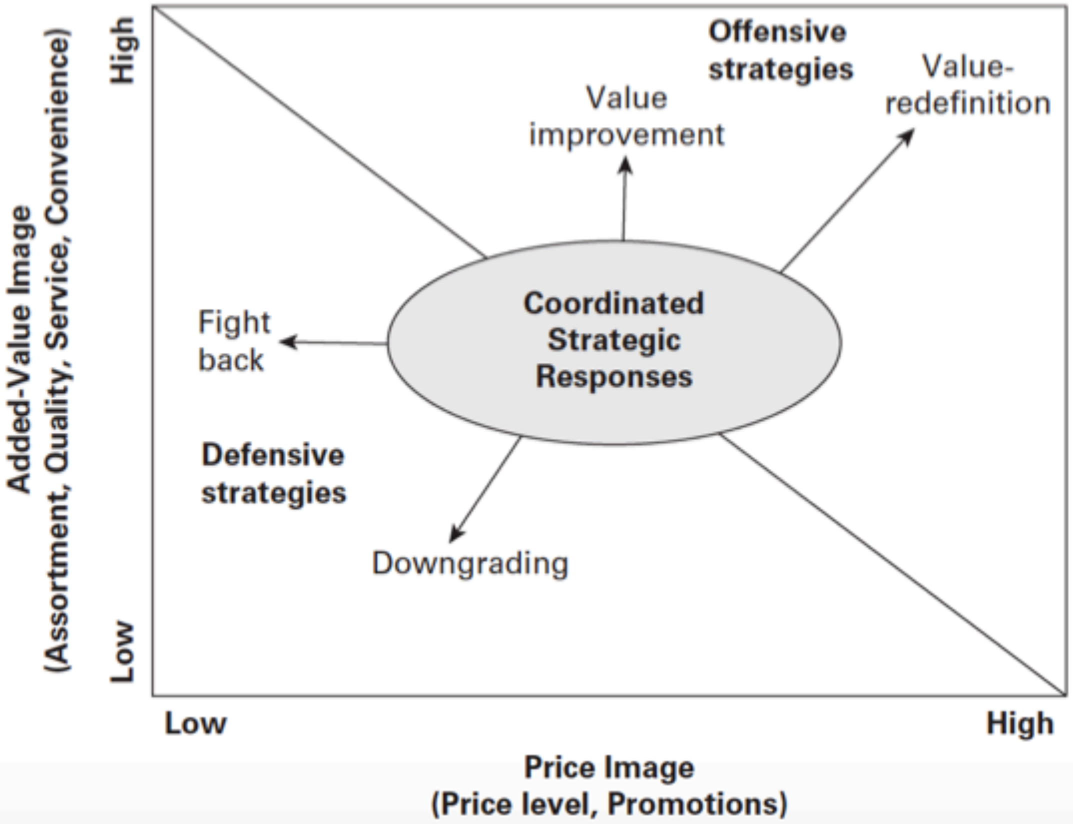


Tesco reveals 9,000 jobs set to be hit in major restructuring amid 'challenging' market

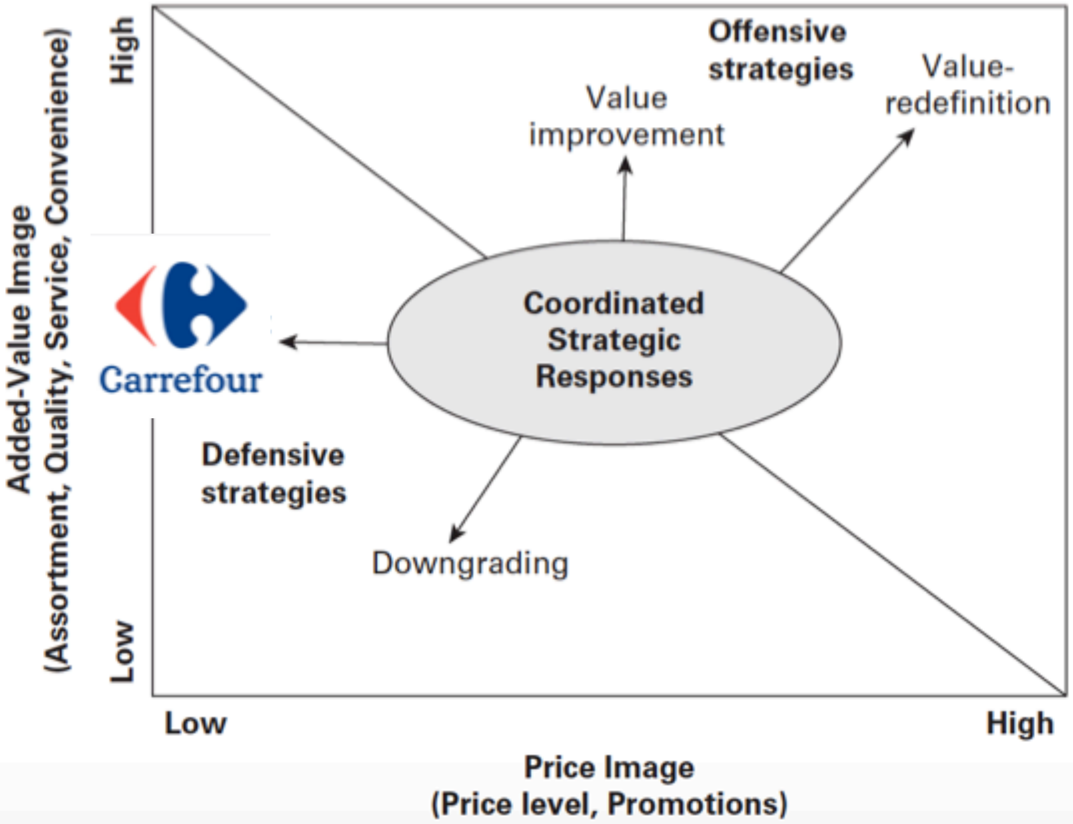
Tesco said that it hoped to redeploy up to 50 per cent of the staff affected into other customer service roles (Source: Getty)

Tesco has revealed plans to axe up to 9,000 jobs as part of a cost-cutting move that will involve the grocer trimming its head office and closing tens of fresh food counters.

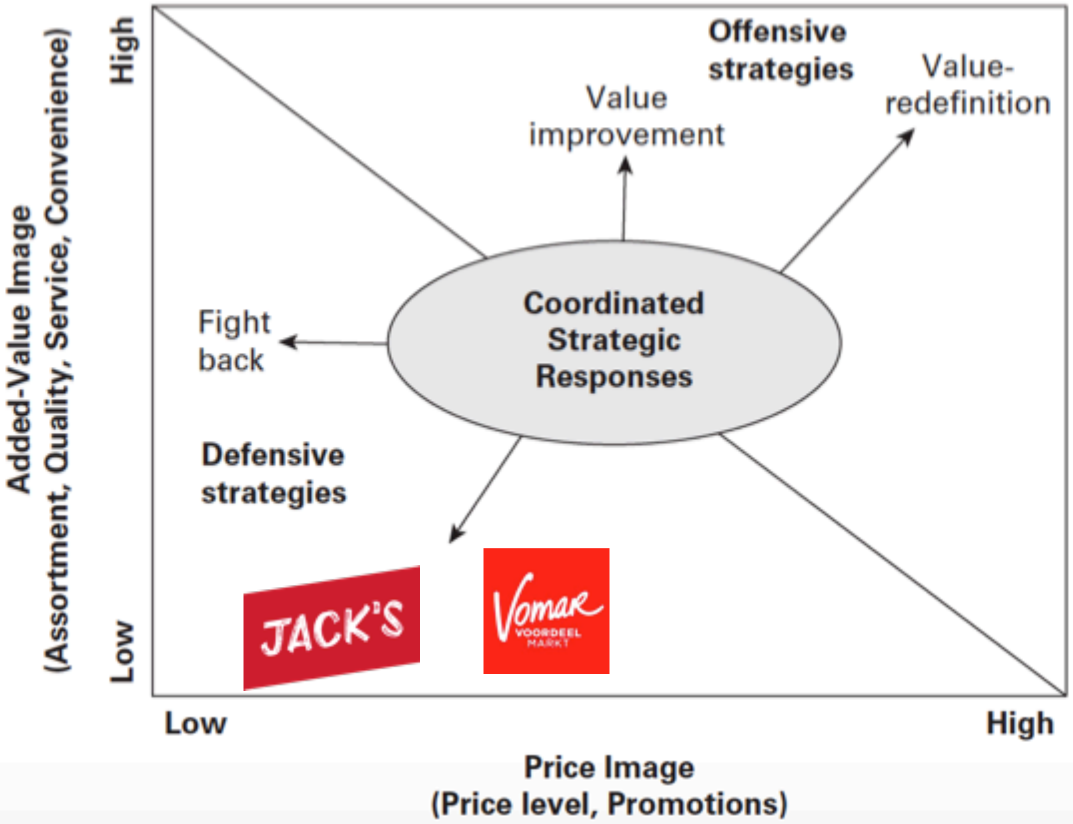
HOW CAN CONVENTIONAL RETAILERS COUNTER HARD DISCOUNTERS?



STRATEGIC OPTIONS CONVENTIONAL RETAILERS



STRATEGIC OPTIONS CONVENTIONAL RETAILERS



Offensive strategies

Value improvement

Value-redefinition

Coordinated Strategic Responses

Fight back

Defensive strategies

JACK'S

Vomar VOORDEEL MARKT

Added-Value Image (Assortment, Quality, Service, Convenience)

High

Low

Low

High

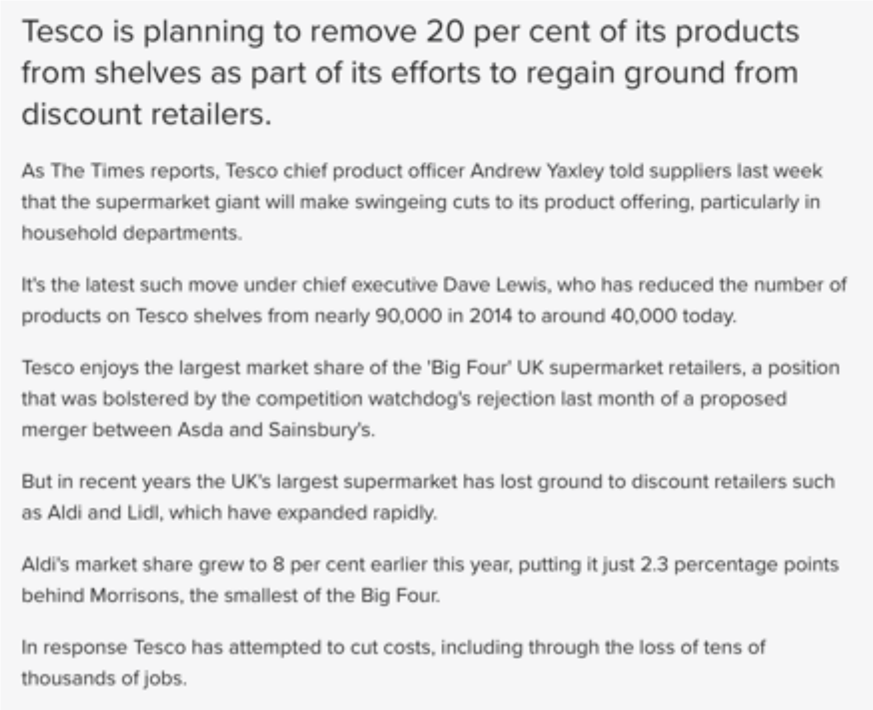
Price Image (Price level, Promotions)

Is TESCO now adopting a downgrading strategy for its main chain?

13 May 2019

Tesco to axe 20% of its products

by Josh Hall



Tesco is planning to remove 20 per cent of its products from shelves as part of its efforts to regain ground from discount retailers.

As The Times reports, Tesco chief product officer Andrew Yaxley told suppliers last week that the supermarket giant will make swingeing cuts to its product offering, particularly in household departments.

It's the latest such move under chief executive Dave Lewis, who has reduced the number of products on Tesco shelves from nearly 90,000 in 2014 to around 40,000 today.

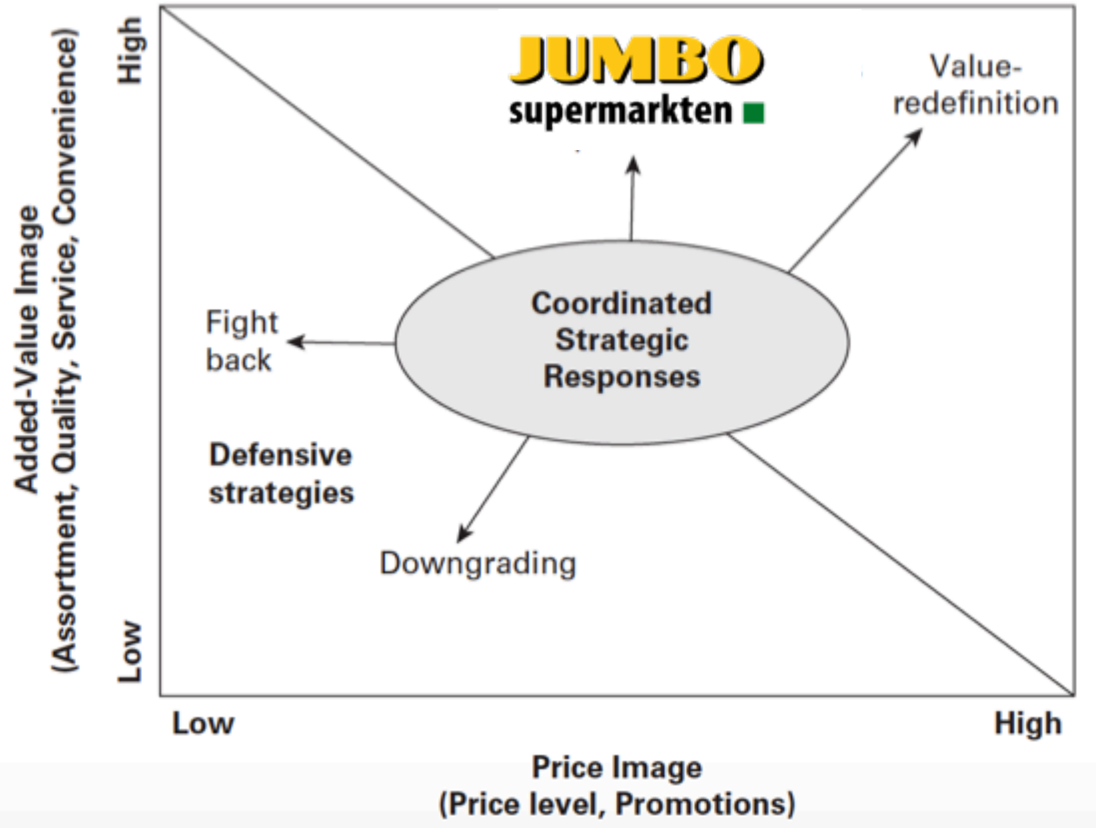
Tesco enjoys the largest market share of the 'Big Four' UK supermarket retailers, a position that was bolstered by the competition watchdog's rejection last month of a proposed merger between Asda and Sainsbury's.

But in recent years the UK's largest supermarket has lost ground to discount retailers such as Aldi and Lidl, which have expanded rapidly.

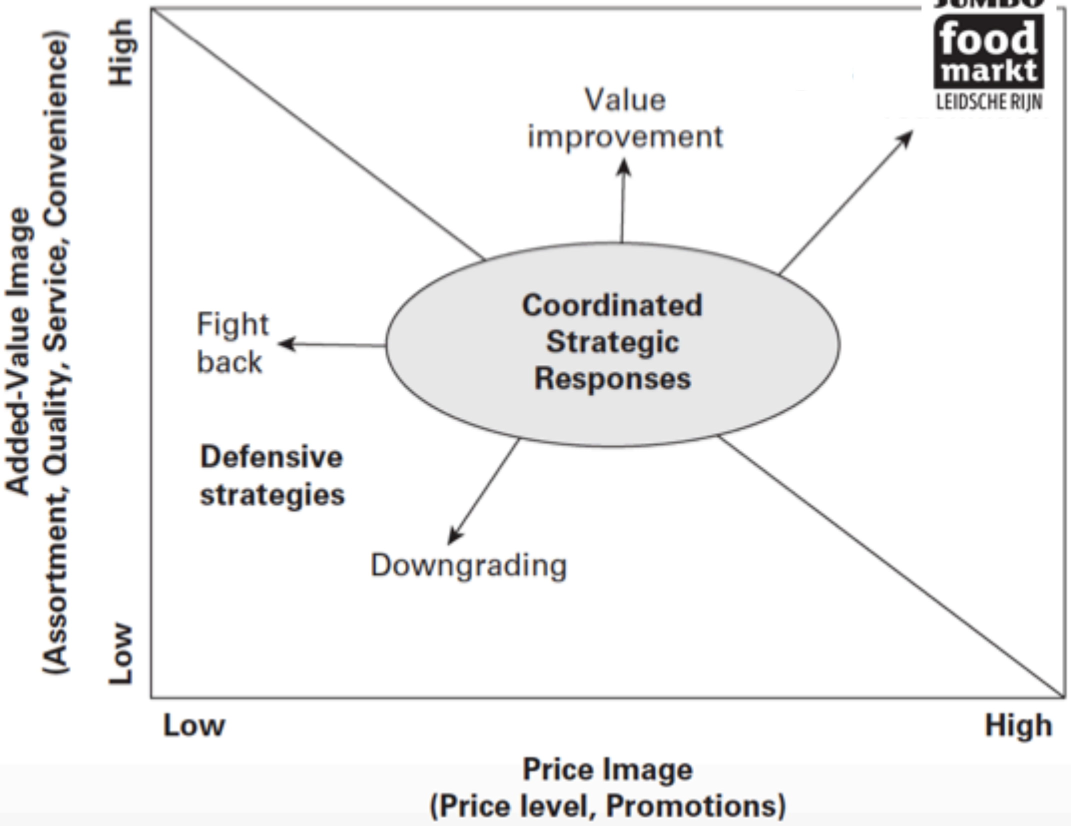
Aldi's market share grew to 8 per cent earlier this year, putting it just 2.3 percentage points behind Morrisons, the smallest of the Big Four.

In response Tesco has attempted to cut costs, including through the loss of tens of thousands of jobs.

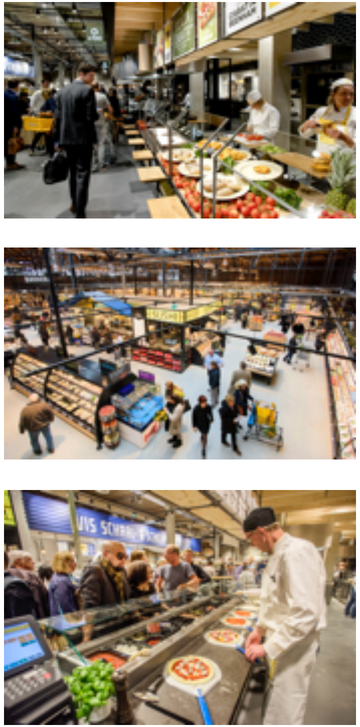
STRATEGIC OPTIONS CONVENTIONAL RETAILERS?



STRATEGIC OPTIONS CONVENTIONAL RETAILERS



JUMBO
food markt
LEIDSCHE RIJN



HOW RETAILERS CAN CAPTURE MORE VALUE FROM NATIONAL BRANDS?

BRAND IMPORTANCE

	Low	High
High	Cell II Increase slotting allowances	Cell III Intensify category management; appoint category captain
Low	Cell I Reduce brand assortment	Cell IV Exclusive relations with select brand manufacturers

CATEGORY IMPORTANCE