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The Future of European Discounters 2008

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Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

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>
> **Sir Stuart Rose**
> Executive Chairman
> Marks & Spencer

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Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.

The Future of European Discounters 2008

Throughout 2008 the leading EU discounters have reported significant quarter-on-quarter sales uplifts. Consumers across the continent are feeling the strain and have increasingly turned to discounters for some cash relief in their grocery shopping. Going forward, the discounters' share of the European grocery market will further encroach on hypermarkets and supermarkets.

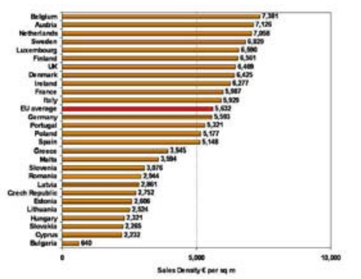
The Future of European Discounters is a new report published by Verdict Research that provides five years of European discounters market data and details the key drivers and trends shaping this sector across Europe. This report analyses key operating statistics for all the leading players to provide a proprietary benchmark of the leading European discounters retailers.

7 Key Retailers Profiled

Aldi
Biedronka
Dia/Ed
Leader Price/Franprix
Netto
Penny
Schwarz Gruppe/Lidl

Identify the fastest growing European discounter markets and understand the strategic issues faced by retailers with this new report...

Grocery discounters sales densities (€ per sq m) 2008



Source: The Future of European Discounters 2008

"In 2008 discounter sales densities reached €7,381 per sq m in Belgium, driven upwards by the stellar performance of the local champion Colruyt. The EU average for discounter sales densities stood at €5,632 per sq m. Austria, the Netherlands and several Scandinavian markets are also near the top with Germany, where discounters have been a feature of the retail landscape since the 1950s, near to the average…"

- **Benchmark your competitive strategies using the company profiles contained in this report** for key retailers including Aldi, Biedronka, Dia/Ed, Leader Price/Franprix, Netto, Penny and Schwarz Gruppe/Lidl.
- **Identify the fastest growing European discounters** with five year historical data including market shares, sales, profits, sales densities, space allocations, space growth and store portfolios for 2002-07 for the key five EU markets.
- **Assess key European discount retailers growth potential and the challenges that they face** with this report's in-depth analysis of market drivers, key issues and outlook.
- **Develop more effective strategic responses** using this report's actionable recommendations on how retailers can respond to the growing threat of European discounters.

The Future of European Discounters 2008

This report answers key questions including...

- How should grocery retailers respond to the rising threat of discounters?
- Is private label innovation the best way forward for discounters?
- What are the discounters' key growth strategies?
- Where are the key opportunities for discounters during the economic downturn?
- How do discounters differ from each other and the wider retail environment?

Key Retail Data 2002-07

Sales Densities
Selling Space
Number of Stores
Sales
Operating Profits
Average Store Size
Sales per Outlet

Key issues examined in this report...

Other grocery retailers reactions to the discounter threat 2008

Source: The Future of European Discounters 2008

"Other grocery retailers have adopted a variety of measures to combat the competitive threat coming from the discounters. These include launching their own discount formats (Rewe, Edeka, Carrefour) or buying a player (Casino, Edeka, JM, Carrefour), ramping up the private label provision on offer and starting a price war (Ahold). There have been varying degrees of success…"

- **Opportunities for Discounters.** Significant opportunites include redefining the store concept, moving branding upmarket without losing the price edge, convenience store retailing, making property work harder, green retailing and further internationalisation. The credit crunch and the worsening global economic outlook create the perfect scenario for the discover format to prosper.
- **Discounter growth.** Proactive range reviews, private label relaunches, alterations of the offer and updated propositions are helping to win discounters new customers. Not least aggressive new discount store openings are also making a significant contribution to driving their sales growth.
- **Private label relaunches and price wars are not enough.** UK Grocers are finding that the only option is to launch their own discount operation. To their dismay the leading players have found that while the model is built upon simplicity, it is far from easy to operate. Asda and reportedly Tesco have tried but failed to develop them into a workable format.

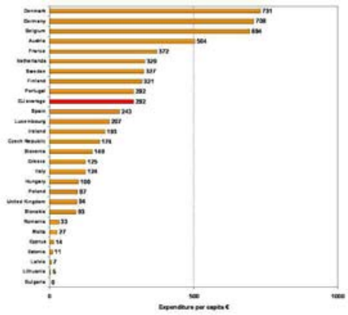
Chapter 5: Discount Retailing in the EU

Sales

- In 2008 Denmark's per capita expenditure on discounters outstripped Germany and Belgium, with average per capita spending of €731. Austria, France and the Netherlands came in fifth, sixth and seventh, respectively. Belgium's discounter sector is dominated by the indigenous player Colruyt, a highly successful retailer in the Top 3 in grocery retailing in the country.

- The different levels of per capita expenditure show the potential for the channel in the lesser developed markets in CEE. The UK's low position on this chart shows its relative outlier position in regards to discount retailing.

Figure 35: EU Discounters sales per capita 2008



Source: The Future European Discounters 2008

- One should keep in mind that purchasing power levels and pricing is still on different levels in the EU and hence Denmark's high share also demonstrates high prices (even at the discounters) in comparison to other markets. As the Danish Kron is tightly managed against the Euro, exchange rate fluctuations only play a minor role. The same arguments about high prices holds true for France where discussions about purchasing power have become a national obsession even though per capita spending levels are high, they have to be taken in context with the wider pricing environment and the available spend on grocery items.

- It should be noted that the hard discounters wait until certain per capita levels in terms of average wages and spending have been reached before entering new markets. This means while some observers might spot a golden opportunity in eastern Europe, the discounters would disagree, as the markets have simply not yet developed to the desired level at which the retailers operate successfully.

- In general in most years and in most countries the channel has significantly outpaced growth rates in the grocery sector, demonstrating that discount retailing really is a winning formula. That said the next table shows that the channel is still in varying states of development in the various markets in the EU, with Germany being a very mature market and some CEE countries without a significant discounter presence as yet.

- The different stages of development of the channel are also reflected in the share discounters take of overall grocery sales in the EU. Again Germany comes out on top with a 43.8% share in 2008 while Bulgaria on the bottom end of the table has no significant discounter presence as yet. The channel has taken a larger share of the market in 2008 than it had in 2003 in every country in the EU apart from Poland (marginally down) and other CEE countries where it has stood still.

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