

Mainstream retailer response to hard discount, an analysis of intra-store and inter-store competition in EU

Key findings:

Retailers in the EU aggressively respond to hard discount. In each country included in our research the budget private label of the mainstream retailer was priced 2-16% lower than the price level monitored at Lidl in the respective country.

Product quality shows a different picture, however. For all products included in the research quality of Lidl products appeared to be at the same level as the national brand or even better. In many cases the budget private label offered by the mainstream retailer was of a different, mostly lower quality than the quality of the national brand and the Lidl private label.

In most cases a more basic packaging quality or design is used for budget private labels in the mainstream retailer compared to the quality of the national brand and Lidl.

Mainstream retailers do not facilitate shoppers to compare prices in store as deviating packaging sizes for their private labels are used.

Mainstream retailers make an effort to avoid losing shoppers to hard discount by offering a range of budget private labels. However, this strategy could result in profit erosion or have a negative impact on overall shopper trust in the retailer brand.

Introduction

In several countries hard discount market shares are growing. This retail format successfully competes on price, quality, consistency and simplicity. In response many mainstream retailers in Europe have expanded or re-launched their budget private label lines to reduce the risk of losing shoppers to discounters like Lidl, Aldi, DIA, Penny and Netto. Objective of this research was to make an analysis of private label against national brand basket value-indexes.

Country	Market share discount
France	13%
Netherlands	15%
Germany	43%
Spain	17%
United Kindom	7%
Belgium	16%

Methodology of research

During period week 52 -2013- to week 3 -2014- IPLC executed store checks in six EU countries (1) to calculate the average price index of a basket of products. In preparation for the store checks a representative basket of products (2) was put together of which price

(3) and pack size (4) by product were registered during field research. By country both a leading mainstream retailer (5) and Lidl were included in the research. Of each mainstream retailer data on the national brand product, the private label equivalent (6) and respective budget private label (7) were gathered. At Lidl data on the private label equivalent of the national brand was registered. Lidl was chosen as a benchmark as this discounter is present in all countries included in the research. Therefore it can be considered as the price- and quality-setting discounter in that country. It has to be noted that the situation in Germany is different however (8)

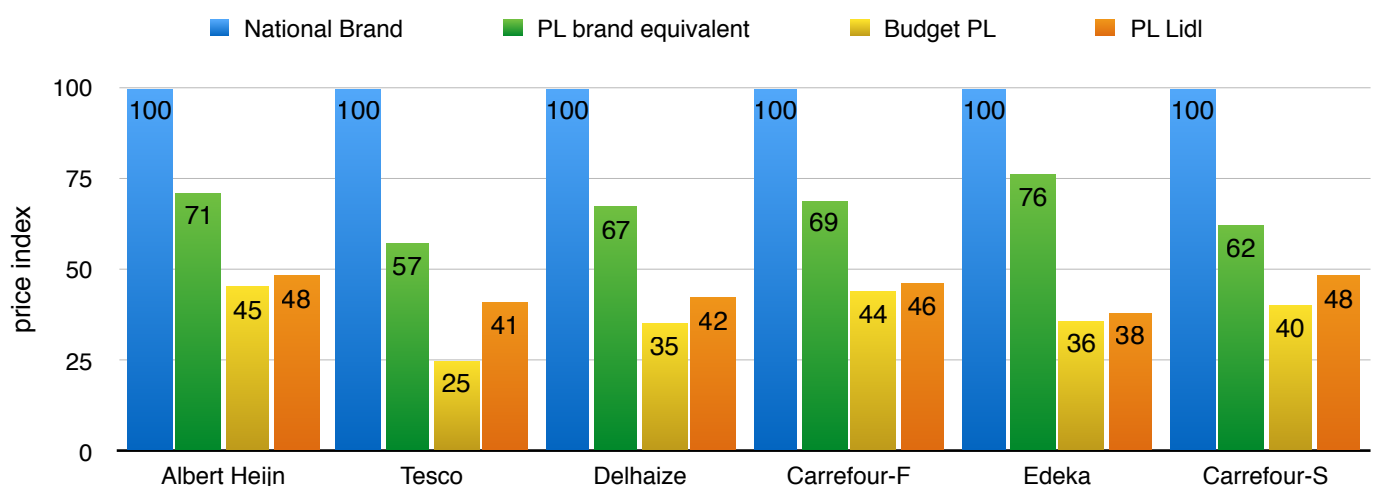
Objective of the research was to compare the basket value-indexes of the private label equivalent and budget private label against the national brand within the mainstream retailer. Subsequently the same index was calculated for Lidl in the respective country. The indexes do not allow for a cross country comparison as the product baskets in the various countries were not identical.

The result of the analysis is shown in the table below.

	Index National brand	Index PL equivalent of national brand	Index Budget private label	Index Lidl PL equivalent of brand
Albert Heijn Netherlands	100	71	45	48
Tesco United Kingdom	100	57	25	41
Delhaize Belgium	100	67	35	42
Carrefour France	100	69	44	46
Edeka Germany	100	76	36	38
Carrefour Spain	100	62	40	48

Examples:

- Average price of Delhaize private label equivalent of national brand is 33% lower than average price of national brand.
- Average price of Lidl private label in Spain is 52% lower in price than national brands at Carrefour



The research reveals that the average price of the private label equivalent of national brands is 24% (Edeka) to 43% (Tesco) lower than the national brand. The average price of the budget private label is 55% (Albert Heijn) to 75% (Tesco) lower than the national brand.

Depending on the country the average price of the private label equivalent of the national brand at Lidl is 52% (Netherlands) to 62% (Germany) lower than the national brand in the respective mainstream retailer.

% of products same size as national brand			
	Private label equivalent of national brand	Budget private label	Lidl
Albert Heijn Netherlands	62%	41%	32%
Tesco United Kingdom	29%	35%	42%
Delhaize Belgium	47%	26%	32%
Carrefour France	63%	47%	30%
Edeka Germany	53%	31%	28%
Carrefour Spain	32%	35%	24%

Also an analysis was made of the number of products being of the same size as the national brand. The outcome is shown in the table below.

Both mainstream retailers and Lidl use pack sizes for their private labels deviating from the national brand. National brand equivalent private labels more often use the same pack size as the national brand (48% on the average) than budget private labels do (36% on the average) and Lidl (31% on the average).

In addition to the price comparison a quality comparison of a number of budget private label products was made solely based on visual observation (ingredient list and quality of packaging), not by sensorial evaluation. In many cases the budget private label in the mainstream retailer appeared to be of a different, lower quality than the quality of the Lidl product.

Conclusions

Price

All mainstream retailers included in the research price their budget private label below the price level of Lidl. This difference ranges from 2% (Carrefour France and Edeka) to 16% (Tesco). It seems important to mainstream retailers to beat hard discount on price.

Product quality

Physical product quality shows a different picture, however. For all products included in the research quality of Lidl products appeared the same level as the national brand or even better. This was not the case for the budget private label offered by the respective mainstream retailer. Except at Delhaize (365) and Edeka (Gut & Günstig) budget private label products were comparable to the quality of the national brand or Lidl in many cases. At Albert Heijn (AH Basic or Euroshopper), Tesco (Everyday Value) and Carrefour (Carrefour Discount) the quality of most budget private labels was quite different compared to the national brand or Lidl. As examples can be mentioned lower fruit content in strawberry jam (Albert Heijn and Tesco), lower percentage hazelnuts in chocolate spread (Albert Heijn, Carrefour) lower content of peanuts in peanut butter (Albert Heijn), fewer hazelnuts in chocolate bars (Albert Heijn, Delhaize) lower content of fruit in natural muesli (Albert Heijn, Delhaize and Tesco) lower content of salmon in salmon salad (Albert Heijn).

Packaging quality

A comparison between packaging quality of the mainstream retailer budget private labels and products offered in Lidl reveals that for most budget private labels in mainstream retailers, a basic packaging and design is used. Either simple photography or only graphics (Tesco Everyday value) are used, no ring-pull for some canned vegetables (Tesco, Albert Heijn, Delhaize, Carrefour), limited use of color for natural muesli bag (Delhaize), no no-drip bottle for ketchup (Albert Heijn). Mainstream retailers seem to be eager to communicate the value message with the packaging for their budget private labels and to reduce costs by using no or very simple photography and fewer packaging features.

Packaging size

Depending on the retailer only 29% (Tesco) to 63% (Carrefour France) of the national brand equivalent private labels was of the same pack size as the national brand. At Albert Heijn (41%), Delhaize (26%), Carrefour France (47%) and Edeka (31%) the percentage of budget private labels being the same size as the national brand was even lower. It seems that deviating packaging sizes are used to make it more difficult for the shopper to compare prices in the store, albeit that some stores display prices per kg or liter on shelf. Although the number of products at Lidl being of the same size as the national brand was even lower, we do not expect this to be of importance as in most cases the national brand product is not offered by Lidl thus no comparison could be made in store.

Overall

Mainstream retailers make an effort to avoid losing shoppers to hard discount by offering a range of budget private labels. Negative effects resulting from this strategy can not be excluded however. Firstly, budget private labels generate lower margins to retailers than national brand equivalent private labels. By offering budget private labels, category profitability may erode due to cannibalizing effects. Secondly, mainstream retailers use their store banner brand to endorse their budget private labels. In case product quality is perceived as an actual lower quality it may have a negative impact on overall shopper trust in the retailer brand.

- (1) Germany, France, Spain, The Netherlands, Belgium and the United Kingdom.
- (2) The basket included a balance of 35 different products taken from categories like 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. However, the balanced total remained representative to allow for a fair comparison.

- (3) Only regular prices were used for the survey, no promotion prices. It should be noted that if promotion prices would have been used and the research would have been extended over a full year, price indexes could be different.
- (4) Packaging format (i.e. shape, features and the like) was disregarded
- (5) Edeka (Germany), Delhaize (Belgium), Albert Heijn (Netherlands), Carrefour (France), Carrefour (Spain), Tesco (United Kingdom).
- (6) Match of the national brand carrying the store banner brand; AH, Carrefour (France and Spain), Delhaize, Edeka and Tesco
- (7) Budget private label: AH basic or Euroshopper*, Carrefour Discount, Delhaize 365, Edeka Gut & Günstig and Tesco Everyday Value
- (8) Market share of retail discount in Germany is very high (43%). As a result mainstream retailer Edeka has adopted a different approach for its private label strategy compared to other mainstream retailers included in the research. Edeka takes Aldi as the benchmark for its budget private label regarding price level and product quality. Therefore, Edeka's Gut&Günstig is of the same quality of the national brands but priced at the same level as Aldi and Lidl. The national brand equivalent private label of Edeka seeks to differentiate from the national brands by adding value. This explains the relatively small difference in price (only 24%).

*Albert Heijn is in the process of replacing the Euroshopper brand by AH Basic

Disclaimer

Data were gathered by means of physical store checks and additional internet search. 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 specialized in strategic consultancy services and project management support to manufacturers and retailers. With a critical understanding of the Private Label industry we help our clients with a pragmatic and action-oriented approach.

With a deep knowledge based on many years of experience in both European retail and Private Label manufacturing IPLC consultants interact closely with their clients. Founded in 2003, IPLC has been involved in many international assignments of manufacturers, retailers and the supply industry.

Our offices in the Netherlands, Germany, France and Spain work with companies ranging from:

- Private Label manufacturers in food and non food*
- Food retailers and drugstores*
- Supply industry (raw materials, packaging, ingredients)*
- Private equity*

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