European Grocery Retailing
Change is the only constant
Agenda

1. Market Overview
2. Leading Retailers
3. Key Trends
4. Takeaways
1. Market Overview
Economic recovery is not universal...

GDP Real Growth 2013 (%)

Source: Planet Retail.
Spending power varies dramatically...

MGD Grocery Spend per Capita 2013 (€ ‘000)

MGD Grocery Spend defined as sales of total grocery products (edible grocery, household & petcare, health & beauty and foodservice) from modern grocery distribution retailers and wholesale enterprises (MGD) per capita.

Source: Planet Retail
Consumers are very different...

15 Groups

67 Types
Grocery retail markets have different heritages...

Grocery Market: Breakdown by Channel 2002 (%)

- Cash & Carries & Wholesale clubs: 6.6%
- Convenience & Forecourt stores: 32.2%
- Discount stores: 15.1%
- Supermarkets & Neighbourhood stores: 39.1%
- Superstores: 32.1%
- Hypermarkets: 27.8%
- 'Other' comprises Department & Variety Stores, Non-store Commerce, Other Grocery formats, Other Non-Food Formats, Catering and Wholesale...

Source: Planet Retail.
But ‘change’ is a common denominator...

Busy lifestyles
- Hectic work/home schedules
- Two working parents
- Commuting

Changing Demographics
- Increasing single person households
- Urban dwelling
- Ageing population

Increasing access to technology
- Smartphone/tablet penetration
- Tech-savvy generations becoming key consumers
- Shoppers becoming more informed
- Home access to the internet
And grocery channels are changing around this...
Growth by channel – Western Europe...

Western Europe: Total Banner Sales by Channel, 2008-2018f (EUR bn)

Note: f – forecast; Source: Planet Retail
Key Markets – Germany

Top 3 Grocery Players by Total Banner Sales (2013e)

- **EDEKA**: €50.2 bn
- **REWE**: €36.9 bn
- **Lidl**: €34.1 bn

Top 3 Grocery Players by Food Retail Format Market Share (2013e)

- **EDEKA**: 25.7%
- **REWE**: 18.5%
- **Lidl**: 16.0%

**GDP CAGR 2013-2018F**: 3.2%

**Grocery banner retail sales CAGR 2013-2018F**: 2.1%

**Germany: CAGR Growth by Channel, 2013-2018f (%)**

- Drugstores
- Supermarkets
- Discount stores
- Convenience
- Cash & Carries
- Hypermarkets

Note: f – forecast
Source: Planet Retail

**Please note, hypermarkets includes superstores, convenience includes forecourts & supermarket includes neighbourhood stores.**
Key Markets – France

Top 3 Grocery Players by Total Banner Sales (2013e)

- Carrefour: €45 bn
- E. Leclerc: €42 bn
- Intermarché: €31 bn

Top 3 Grocery Players by Food Retail Format Market Share (2013e)

- Carrefour: 18.7%
- E. Leclerc: 17.3%
- Intermarché: 12.5%

3.0% GDP CAGR 2013-2018f

2.7% Grocery banner retail sales CAGR 2013-2018f

France: CAGR Growth by Channel, 2013-2018f (%)**

- Convenience
- Cash & Carries
- Drugstores
- Discount stores
- Hypermarkets
- Supermarkets

**Please note, hypermarkets includes superstores, convenience includes forecourts & supermarket includes neighbourhood stores.

Note: f – forecast
Source: Planet Retail
**Key Markets – UK**

**Top 3 Grocery Players by Total Banner Sales (2013e)**

- **Tesco**: €57.9 bn
- **Sainsbury’s**: €31.7 bn
- **ASDA**: €30.4 bn

**Top 3 Grocery Players by Food Retail Format Market Share (2013e)**

- **Tesco**: 26.1%
- **Sainsbury’s**: 14.9%
- **ASDA**: 14.0%

**UK: CAGR Growth by Channel, 2013-2018f (%)**

- **Discount stores**: 4.9%
- **Convenience**: 4.0%
- **Cash & Carries**: 2.6%
- **Supermarket**: 2.3%
- **Drugstores**: 2.2%
- **Hypermarkets**: 2.0%

Note: f – forecast
Source: Planet Retail

**Please note, hypermarkets includes superstores, convenience includes forecourts & supermarket includes neighbourhood stores.**
Key Markets – Italy

Top 3 Grocery Players by Total Banner Sales (2013e)

- Coop: €13 bn
- CONAD: €10 bn
- Auchan: €9 bn

Top 3 Grocery Players by Food Retail Format Market Share (2013e)

- Coop: 8.0%
- CONAD: 6.4%
- Auchan: 5.6%

**Please note, hypermarkets includes superstores, convenience includes forecourts & supermarket includes neighbourhood stores.**

**Based on food retail format market share.**

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**2.4%**
GDP CAGR 2013-2018F

**2.1%**
Grocery banner retail sales CAGR 2013-2018F

**Italy: CAGR Growth by Channel, 2013-2018f (%)**

- Discount stores
- Drugstores
- Hypermarkets
- Supermarkets
- Convenience
- Cash & Carries

Note: f = forecast
Source: Planet Retail
Key Markets – Spain

Top 3 Grocery Players by Total Banner Sales (2013e)

- MERCADONA €20 bn
- El Corte Ingles €16 bn
- Carrefour €9 bn

1.9% GDP CAGR 2013-2018F

3.8% Grocery banner retail sales CAGR 2013-2018F

Top 3 Grocery Players by Food Retail Format Market Share (2013e)

- MERCADONA 23.3%
- El Corte Ingles 14.3%
- Carrefour 10.2%

Spain: CAGR Growth by Channel, 2013-2018f (%)*

- Drugstores
- Convenience
- Supermarkets
- Cash & Carries
- Discount stores
- Hypermarkets

0 2 4 6 8 10 12 CAGR (%)

Note: f – forecast
Source: Planet Retail

*Based on food retail format market share.

**Please note, hypermarkets includes superstores, convenience includes forecourts & supermarket includes neighbourhood stores.
Key Markets – Portugal

Top 3 Grocery Players by Total Banner Sales (2013e)

- JERÓNIMO MARTINS: €5 bn
- SONAE: €5 bn
- Intermarché: €2 bn

Top 3 Grocery Players by Food Retail Format Market Share (2013e)

- JERÓNIMO MARTINS: 20.3%
- SONAE: 19.4%
- Intermarché: 8.1%

3.0% GDP CAGR 2013-2018f
4.6% Grocery banner retail sales CAGR 2013-2018f

Portugal: CAGR Growth by Channel, 2013-2018f (%)**

- Drugstores
- Discount stores
- Supermarkets
- Hypermarkets
- Cash & Carries
- Convenience

-2 0 2 4 6 8 10 CAGR (%)

Note: f – forecast
Source: Planet Retail

**Please note, hypermarkets includes superstores, convenience includes forecourts & supermarket includes neighbourhood stores.

* Based on food retail format market share.
2. Leading Retailers
Competitive Environment

Western Europe: Top 10 Grocery Players by Total Banner Sales, 2013e (EUR bn)

- Carrefour: 65.0
- Schwarz Group: 64.6
- Tesco: 61.0
- Metro Group: 51.6
- Edeka: 50.2
- Aldi: 49.2
- Rewe Group: 46.6
- Leclerc: 44.5
- Auchan: 39.0
- ITM (Intermarché): 32.8

e – estimate
Source: Planet Retail.
Competitive Environment

Western Europe: Top 10 Grocery Players by Total Banner Sales, 2018f (EUR bn)

Note: f – forecast
Source: Planet Retail
Key Players – Carrefour

#1 Carrefour

Carrefour is focusing on revitalising operations in core markets – with further disposals of peripheral operations a possibility.

- Turn around ailing hypermarket format
- Improve its price image
- Expand smaller formats under the Carrefour Express, City and Contact banners
- Grow multi-channel via drive format
Key Players – Schwarz Group

#2 Schwarz Group

Schwarz Group is one of the most aggressively growing companies, with a presence in 25+ European markets.

- Aims to become the largest food retailer in Europe
- Working to propel Lidl past Aldi as largest discounter in Europe
- Introducing minimum turnover per outlet requirements
- Investing heavily on the instore experience

Schwarz Group’s Lidl banner is seeing continued expansion albeit at a slower pace.

Lidl has been rolling out instore bakeries across W Europe as it looks to attract a broader spectrum of shoppers.
Key Players – Tesco

#3 Tesco

Tesco has unveiled the next phase in its UK improvement plan with seven areas targeted - EDLP, product innovation, service, GM, destination stores, convenience, Clubcard and multi-channel.

- Strategic shifting to EDLP with incremental EUR 245 million investment

- Focusing on the refurbishment of big-box stores in 2014

- Expanding convenience formats – will open 150 Express per annum

- Will double the number of click & collect locations
Key Players – Metro

#4 Metro Group

For some time now, Metro Group has been battling on all divisional fronts due to its portfolio of structurally troubled formats.

- Exiting non-core markets to focus on core and key emerging markets
- Refining cash & carry concept in saturated markets of WE to boost attractiveness to business customers
- Adapting to changing customer needs with diverse formats
- Closing unprofitable hypermarkets
- Undertaking a series of long-overdue store refurbishments
Key Players – Edeka

#5 Edeka

Edeka is reviving its co-operative roots as it refocuses on the strengths of its regional set-up and its thriving independent retailers.

- Diminish the diversity of banners and regional and local idiosyncrasies
- Support its independent shopkeepers with the development of new supermarket concepts
- Reassess and reposition its Netto discount chain
- Strengthen national buying by bundling sourcing at the Hamburg headquarters

The Für Dich (For You) ranged supplied by candy manufacturer Katjes is available exclusively at Edeka.

Edeka’s Omega 3 sausages were developed in collaboration with the Frauenhofer Institute.
3. Key Trends
Death of the hypermarket?

- Increasingly restrictive planning legislation
- Apparent ‘saturation’ in some markets
- Difficulty in finding / securing appropriate sites
- Lack of investment
- Rising land and development costs
- Less ‘one-stop’ shopping / ‘format fatigue’
- Online migration (esp in General Merchandise)
- Shifting consumer trend towards convenience
Countries most exposed to ‘Big Box’

Hypermarket (>5,000 sq m) Penetration of Grocery Market by Country (%)

MGD Grocery Spend defined as sales of total grocery products (edible grocery, household & petcare, health & beauty and foodservice) from modern grocery distribution retailers and wholesale enterprises (MGD) per capita.

Source: Planet Retail
Some perspective...

- Hypermarkets are **not dead**, many will continue to prosper

- Huge variations by location, generalizations are dangerous:
  - Country / market
  - Site / catchment

- But we are likely to see an inevitable *slowdown in development* of new hypermarket space in some countries

- Hypermarket sales will continue to **grow**, although **at a slower rate** than some other channels (discount stores, c-stores, E-commerce)

- A large number of hypermarkets are **very challenged** and many have been subject to **under-investment**

- A number are ‘over-spaced’ and are in need of a **radical rethink**...
Selected options for ‘over-spaced hypermarkets’...

No single ‘catch all’ cure, but a number of options – employed in isolation or in unison, according to the needs of the individual store and the catchment it serves....

Option 1
Downsize or sub-let surplus space to 3rd parties

Option 2
Re-allocate GM space to extend food offer

Option 3
Re-think product mix of GM space

Option 4
Improve in-store catering / foodservice
Option 1 – downsize or sublet...

- Nando’s
  - Wembley Park.
- Sports Direct
  - Three UK sites.
- Xercise4Less
  - Stockton-on-Tees.
Option 2 – re-allocate GM to extend food offer...
Option 3 – rethink product mix of GM space...
Option 4 – improve in-store catering...
Flight to convenience…

Western Europe: Total Banner Sales by Channel, 2008-2018f (EUR bn)

Note: f – forecast; Source: Planet Retail

Sales (EUR bn)

- Hypermarkets & Superstores
- Supermarket & Neighbourhood
- Discount
- Convenience & Forecourt
- Drugstores
- Cash & Carries

2008-2013 CAGR
2013-2018 CAGR

Hypermarkets & Superstores: 2008 - EUR 250bn (2.0% CAGR)
Supermarket & Neighbourhood: 2008 - EUR 200bn (2.6% CAGR)
Discount: 2008 - EUR 150bn (4.5% CAGR)
Convenience & Forecourt: 2008 - EUR 50bn (2.8% CAGR)
Drugstores: 2008 - EUR 10bn (0.1% CAGR)
Cash & Carries: 2008 - EUR 5bn (0.1% CAGR)
C-stores – a pan-European perspective...

No. of C-stores and Forecourt Stores 2013 – Top 20 European Markets

<table>
<thead>
<tr>
<th>Country</th>
<th>No. of C-stores 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>25,442</td>
</tr>
<tr>
<td>France</td>
<td>11,940</td>
</tr>
<tr>
<td>Germany</td>
<td>8,286</td>
</tr>
<tr>
<td>Poland</td>
<td>6,585</td>
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<tr>
<td>Spain</td>
<td>4,023</td>
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<tr>
<td>Russia</td>
<td>3,034</td>
</tr>
<tr>
<td>Belgium</td>
<td>2,370</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1,931</td>
</tr>
<tr>
<td>Norway</td>
<td>1,907</td>
</tr>
<tr>
<td>Italy</td>
<td>1,808</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>1,340</td>
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<tr>
<td>Hungary</td>
<td>1,308</td>
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<tr>
<td>Ireland</td>
<td>1,187</td>
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<tr>
<td>Austria</td>
<td>1,178</td>
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<tr>
<td>Sweden</td>
<td>1,161</td>
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<tr>
<td>Switzerland</td>
<td>1,071</td>
</tr>
<tr>
<td>Romania</td>
<td>980</td>
</tr>
<tr>
<td>Finland</td>
<td>921</td>
</tr>
<tr>
<td>Denmark</td>
<td>781</td>
</tr>
<tr>
<td>Ukraine</td>
<td>696</td>
</tr>
</tbody>
</table>

Source: Planet Retail
C-stores – the recipe for success...

A new business model, different from supermarkets and big box

More strategic location planning

A higher cost model

Requiring a higher margin product mix

Focus on fresh foods and food-to-go

Greater emphasis on private labels

Catering for a wide range of shopping visits and occasions:
  - ‘Top up’ shopping
  - Breakfast and Lunch
  - Evening meal solutions.
C-stores go hand-in-hand with e-commerce...
Discounters – the march continues (?)…

Western Europe: Total Banner Sales by Channel, 2008-2018f (EUR bn)

- **Hypermarkets & Superstores**
  - 2008: 300 EUR bn
  - 2013: 320 EUR bn
  - 2018f: 340 EUR bn
  - CAGR: 2.6%

- **Supermarket & Neighbourhood**
  - 2008: 250 EUR bn
  - 2013: 270 EUR bn
  - 2018f: 290 EUR bn
  - CAGR: 2.0%

- **Discount**
  - 2008: 150 EUR bn
  - 2013: 160 EUR bn
  - 2018f: 170 EUR bn
  - CAGR: 4.2%

- **Convenience & Forecourt**
  - 2008: 50 EUR bn
  - 2013: 55 EUR bn
  - 2018f: 60 EUR bn
  - CAGR: 5.3%

- **Drugstores**
  - 2008: 10 EUR bn
  - 2013: 11 EUR bn
  - 2018f: 12 EUR bn
  - CAGR: 4.4%

- **Cash & Carries**
  - 2008: 5 EUR bn
  - 2013: 6 EUR bn
  - 2018f: 7 EUR bn
  - CAGR: 1.6%

Note: f – forecast; Source: Planet Retail

2008-2013 CAGR

2013-2018 CAGR
What exactly is a discounter?

Limited assortment, low prices and no services

“I am convinced that the two principles, that of small ranges and low prices, cannot be separated.”

Karl Albrecht
Aldi Founder & Owner
(1953)
Discounters – the European Top 10...

Europe: Top 10 Discount Store Operators by Total Sales, 2007-2017f (EUR bn)

Note: f – forecast; * part of Carrefour until 2011; ranked by 2012 sales.
Source: Planet Retail
A one-dimensional model is diversifying...

In the face of saturation and decelerating growth, discounters are having to change tact and adapt their business models....

Tactic 1: Shift in product mix towards freshness

Tactic 2: Increased brand listings

Tactic 3: Move towards convenience formats
Shift towards freshness

- Penny (Germany, Czech Republic, Italy)
- Dia Fresh (Spain)
- Instore bakery trial, Aldi Süd’s Hofer (Austria)
Shift towards brand listings - Aldi

- Rationale behind the brand additions:
  - Revitalising sales in saturated markets
  - Attracting more/new shoppers
  - Increasing average spend
  - Countering the success of its main rival, Schwarz Group’s Lidl
  - Part of a strategy to become a one-stop destination

Aldi: Brand listings of Top 10 FMCG brand companies

<table>
<thead>
<tr>
<th>Sales rank</th>
<th>FMCG brand company</th>
<th>Brand listings at Aldi*</th>
<th>Examples</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nestlé</td>
<td>■■</td>
<td>Nescafé in Switzerland</td>
</tr>
<tr>
<td>2</td>
<td>P&amp;G</td>
<td>■■</td>
<td>Gillette in Austria</td>
</tr>
<tr>
<td>3</td>
<td>PepsiCo</td>
<td>■</td>
<td>Pepsi in Slovenia</td>
</tr>
<tr>
<td>4</td>
<td>Unilever</td>
<td>■</td>
<td>Lusso in Switzerland</td>
</tr>
<tr>
<td>5</td>
<td>Mondelez</td>
<td>■■</td>
<td>Toblerone in Germany</td>
</tr>
<tr>
<td>6</td>
<td>Coca-Cola Co.</td>
<td>■■■</td>
<td>Römerquelle in Austria</td>
</tr>
<tr>
<td>7</td>
<td>ABInBev</td>
<td>■■</td>
<td>Stella Artois in the UK</td>
</tr>
<tr>
<td>8</td>
<td>Philip Morris Intl.</td>
<td>■</td>
<td>Marlboro in Germany</td>
</tr>
<tr>
<td>9</td>
<td>L’Oréal</td>
<td>■</td>
<td>Garnier Fructis in Hungary</td>
</tr>
<tr>
<td>10</td>
<td>Japan Tobacco</td>
<td>■</td>
<td>Winston in Switzerland</td>
</tr>
</tbody>
</table>

Red: Recently added permanent listings (ca. 2010-2013)
- ■■■■ Broad brand portfolio, in most markets
- ■■ Limited brand portfolio, in selective markets
- ■ Minor brand portfolio, in a small number of markets

Ranking: OC&C Analysis for 2011, excluding regional meat companies.
Source: Planet Retail.
Move towards convenience formats – Aldi and Lidl
Grocery E-commerce – fad or the future?...

Proportion of web shoppers who have made grocery purchases online.

Source: Planet Retail’s Online Shopper Survey data.
The great unknown...

“We don’t know where the online train is going and how fast it is running. I only know that we need to be on board.”

ALAIN CAPARROS
CEO Rewe Group

Indicative of how many European grocery retailers currently feel.
Still more questions than answers...

- What’s the impact on bricks and mortar stores?
- What are the geographic implications?
- Who are the main key customer groups?
- Am I just cannibalising existing sales?
- Can it ever be profitable?
- Which is the best model – store-picking or dedicated DC?
- Home delivery or Click & Collect?
- How do channels interact?
- Am I just doing it because everyone else is doing it?
Grocery E-commerce - ‘how not to do it’....

Grocery E-commerce may be high growth but it is not straightforward – it needs to be high profile and executed skilfully.
Grocery E-commerce – drive format...

Click & collect, external to a store or as a free-standing unit.
Drives – different business models....

Tesco operates “van sheds” on store car parks for shoppers to collect their groceries quickly by car.

Ahold in the US is experimenting with compact standalone Drives by their stores.

Metro Group’s Real integrated infrastructure alongside stores is the most common form of Drive to date.

Catalan retailer Bonpreu has invested heavily in a standalone Drive format, designed to secure a catchment area in its own right.
4. Key takeaways
Channel convergence...

**BIG BOX** servicing online home delivery, Click & Collect, Drive formats.

**HYPERMARKETS**

Hypermarkets opening dedicated discount areas and formats.

**E-COMMERCE**

C-stores deployed as E-commerce fulfillment outlets.

**DISCOUNTERS**

Discounters opening more convenience-based formats.

**C-STORES**
Change is the only constant...

- European retail markets are undergoing substantial change
- Suppliers need to evolve to move with retail change
- Polarity of maintaining volumes and driving margin
- Different strategies for different channels (and markets, retailers)
- Retailers will be looking to suppliers to help them through change
- Key watchwords – FLEXIBILITY AND COLLABORATION.
Thank You