



DISCOUNTER BATTLES IN POLAND

BY
**SEBASTIAN
RENNACK**
SENIOR RETAIL
ANALYST,
LZ RETAILYTICS

End of a Golden Age

Discounters in Poland are increasingly evolving their formats towards the supermarket model. But not all of the key players – Biedronka, Lidl, Aldi Nord and Netto – will be able to keep up with shifting consumer preferences. With shoppers expecting a broader choice of branded items and higher product quality, all channel players have increased their SKU count by up to 50% in recent years. As a result, the latest store concepts are more advanced than in many Western countries. The larger share of branded items has made the discount model vulnerable to promotional attack from other channels. Therefore, market leader Biedronka and follower Lidl are working to reinvent their sales concepts in a head to head race, while simultaneously battling for price leadership. Long-established

Aldi Nord, the latecomer in this new game of supermarketisation, is moving fast, but without a realistic chance to gain a position of importance at a national level.

The golden age of hard discount in Poland is over. With disposable income growing, consumers not only expect to find the lowest prices instore at key players Biedronka, Lidl, Aldi and Netto, but increasingly attach importance to product quality, including a better choice of branded goods. Currently discounters make up almost 30% of organised grocery retail in Poland, with the channel taking the largest share of the market. With annual growth rates of almost 9%, the price oriented format has been distinctly outperforming the market by more than five percentage points over the last couple of years.

This has come at the expense of the hypermarket segment and independent traders. Increasing consolidation, geographical saturation and shifting shopper preferences, however, will curb future expansion and challenge the discounters' basic business model.

Biedronka, the undisputed market leader with a store network of more than 2,700 soft-discount stores nationwide, is increasingly under attack from much smaller Lidl. The German discounter not only offers competitive prices, but its strong focus on quality and freshness is making up for a store count that barely reaching 600 outlets. Global heavyweight Aldi and Danish Netto constitute only a minor presence, with insufficient stores to be able to measure up to the top player currently. With the total

number of discounter outlets expected to approach 4,000 stores within the next two years, continued growth runs the risk of increasing cannibalisation and consequently, sinking profitability. Where in the past new store openings guaranteed a positive like-for-like by taking market share from other market participants, now the discount players are battling primarily amongst themselves.

Upmarket Evolution

With disposable income in Poland rising, the four discounters are in the process of adapting their sales concepts to evolving customer expectations. Although promotional battles between Biedronka and Lidl are still prominent, consumers' reorientation towards purchasing criteria such as quality, local origin and convenience are driving strategy changes.

Biedronka's store network covers rural as well as urban areas all over Poland. Adapted to local catchment areas, Jerónimo Martins' discount banner ranges from 400 to 900 sq m. Seasonal pallet placements in front of the checkout zone as well as selling residual non-food items under the "Towaroteka" banner partially compensate for this disadvantage.

In a country in which a large part of the population is based in rural areas, with strong and deep-rooted traditions, the standard, international no frills approach of 'one size fits all', however, no longer works. This is where Biedronka's single-market operation and size has paid off to date. Where Aldi and Lidl featured up to 85% phantom brands unknown to the Polish consumer, Biedronka scored goodwill with its customers by offering significantly more branded items of Polish origin at better prices. But now it feels like the tide might be turning.

Sales Concepts Converge

Mutual copycat tactics for seasonal promotions; international weeks; and time-limited premium food and non-food own brand offers have been blurring the

differentiation between the two market leaders, who are fighting to maintain a distinguishable USP. Seeking defining features other than pricing, both retailers promote their fresh ranges and product quality. Biedronka's fruit & vegetable concept Warzywniak ('Fruit & Vegetable Stall') is poised against Ryneczek Lidla ('Lidl's Open Market'). Meanwhile in the bakery, Biedronka's Swieze Wypieki ('Fresh Pastries') compete with Chrupiace z Pieca ('Crispy From the Oven'); and at the meat chiller Kraina Miesa ('Land of Meat') attempts to entice customers versus Lidl's Rzeznik ('Butcher').

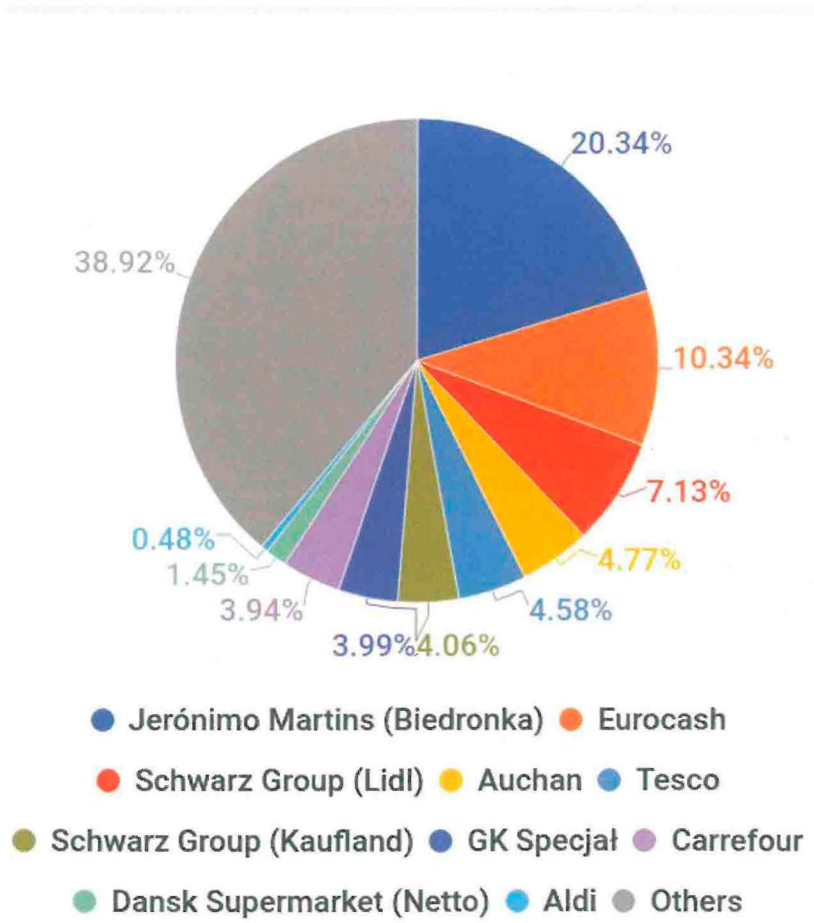
Essentially these efforts are all directed at creating traffic and increasing customer loyalty in high involvement categories. Finally, celebrity marketing and the tentative listing of regional products are both strategies aimed to strengthen local anchoring, while at the same time reflecting an increase in patriotic awareness.

Biedronka, already leading with regards to Polish brands, has regionalised its weekly offers and unmistakably defends its claim as a Polish-origin discounter with marketing campaigns such as 'My Polacy uwielbiamy grillowac' ('We Polish love to barbecue'). So far Lidl, taking the role of David, is holding its ground against ever-present Biedronka, D the Goliath in this analogy.

A Discounter for the Elderly

At the same time, we see market follower Netto (Dansk Supermarked) going its own way. The refurbishment of its stores to its latest international concept is clearly directed upmarket. However, the massively promoted 'Pólka Zdrowia' ('Health Shelf'), which takes up five units in the new store concept, might not be aimed at the Danish banner's primary target group. In our opinion, Netto has taken the role of proximity discounter for the elderly generation.

Selected Retailers' Market Shares in Poland, 2017 (%)





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The bakery range consists of mainly white bread and Kaiser rolls, the butcher in front of the checkouts offers traditionally smoked sausages and cured pork. Also, half of the large range of chilled butters and margarines are designated for baking – not necessarily the pastime of the younger generation. The large selection of TV magazines at the checkout reinforces this impression. This does not mean that Netto is taking the wrong path. The retirement age in Poland was reduced recently; meanwhile the 60+ age group in the country is expected to grow fastest until 2020. With novel items such as coconut oil and Himalaya salt added successively, Netto prepares for the future while catering to a key demographic segment.

Aldi Joins the Game

It is no longer an option for Aldi Nord to stick to its minimalist EDLP policy while handling its marketing communication with elegant reserve. Increasing its SKU count by more than 50% over the past few years, as is the tendency for all market players, the German discounter has recognised that it must follow the market to keep pace with its much larger channel peers, investing in marketing communication and listing more brands. In a price-driven, but increasingly quality



Aldi Nord's stores until recently conveyed an atmosphere of simplicity accompanied by a touch of sterility. Following recent changes in signage, weekly promotions and the non-food sales area offering price reductions of 30%–50% has all increased visibility. Judging from the increased customer traffic, price oriented marketing communication has been a success for the traditionally rather tight-lipped German discounter.

oriented market environment, the retailer is following the supermarketisation trend.

As a result, the discount veteran exposes itself to heightened price transparency, now competing on an equal and comparable basis against all other market players. Taking the bull by the horns, Aldi is stepping up its game on every level.

Leaflets have been restyled and are now called 'Aldi Hity Tygodnia' ('Aldi Hits of the Week') with the last page 'Nowosc!' ('Novelties!') primarily reserved for supplier brands. Promotions instore are presented in a designated area marked 'Super Cena' ('Super Price'), enhanced with appropriate signage; and the non-food section now features a 'Wyprzedaż' ('Sales Reductions') zone. Also from the outside, changes are clearly visible, with exterior walls featuring promotional as well as image billboards.



Netto's refurbished stores appear more spacious and structured than before the refresh, increasing ease of shopping. Although the fruit & vegetable department was doubled in size, fresh ranges are limited. To offset the smaller choice in these categories, Netto stores feature local butcher shops and bakeries in front of the checkouts.

German Discounters Prove Staying Power

The new-found importance of Poland as a market for international operators Lidl and Aldi is indisputable, even if both feature a global network of more than 10,000 stores each. Both are allocating considerable sums to store refurbishment and new shop designs. Aldi Nord just authorised a budget of EUR5bn to refresh its operations right across Europe. The time when discount stores in Poland were reminiscent of German shops twenty years prior is over. The latest urban concepts such as that recently opened in Poznan seem noticeably more modern and innovative than many long-standing siblings located in our neighbour country to the West.



Considering the current developments, we predict a strong future development for Lidl and Biedronka with the latter's compound annual growth around one half of Lidl's, attributed to a slower expansion pace. At the same time, we expect Aldi, although dwarfed by the dominant players, to double its market presence by 2021, fuelled by consistently high like-for-like development and a steady expansion of its store network.

Learn more about LZ Retailytics:
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Lidl's stores are mostly constructed as standalone sites with comparable sized sales areas. Spacious interiors and prominent fresh ranges with a special focus on organic, free-from and the health assortment differentiate Schwarz Group's discount banner from other market players. With a strong dual marketing campaign, the retailer addresses traditional as well as more modern, health and convenience-oriented consumer segments.



AN INTERVIEW WITH **BJÖRN WEBER** Head of LZ Retailytics

LZ Retailytics is an international retail analyst group supporting the grocery retail and consumer goods industries with insightful information, data and analysis to facilitate business planning and decision making.

The group delivers these insights in the form of an innovative, fully mobile-enabled digital product as well as through workshops, inhouse trainings and advisory projects. LZ Retailytics is part of Lebensmittel Zeitung (LZ) the leading trade and business newspaper for grocery and consumer goods in Germany.

LZ Retailytics's team of senior analysts

is spread internationally and all are well known for their deep knowledge of the retail industry and their specialisation in new store formats, e-commerce and digitalisation, private label, hard discounter, retail technology and logistics.

We spoke with Björn Weber, Head of LZ Retailytics to gain some insight into his and his team's outlook for the future of retail. Following this brief interview are some highlights from the European market. An internationally renowned analyst, journalist and consultant for the retail industry, Björn has been specialising in retail technology for more than 15 years. Until end of 2014,

he was the Research Director for Retail Technology as well as member of the executive board at London-based analyst group Planet Retail. He was also the company's General Manager in Germany.

Before joining Planet Retail in March 2007, Björn was editor of Lebensmittel Zeitung (LZ) for more than seven years. At LZ, Björn also specialized in analysing the technology and logistics strategies of retail companies and consumer goods manufacturers. His remit also included all reports on e-commerce.

GRB.
Mega-Retailers such as Amazon,

Walmart, Carrefour and others at the top will thrive and those serving the discount space such as Aldi, Lidl and Clubs are growing. Retailers in the middle seem somewhat lost. What advice can you offer them?

BW.

It's true to say that all full-range brick and mortar retailers are coming under pressure in the current environment, including giants such as Walmart, Tesco and Carrefour. However, because of their cost structure and size, the pressure may be bigger for them than it is for smaller, regional grocery heroes which can often be more flexible in their approach. Almost all full-range retailers are currently suffering under massive pressure, which comes from two sides: firstly from the cost of providing increased services that Amazon's influence sets as customer expectations in the heads of the shoppers and secondly from the price pressure of the German hard discounters.

We recommend to the full-range retailers that they work on innovative online strategies, that both leverage the asset of having a store network and that also have the opportunity to recoup some of the expenses by charging shoppers for this increased level of service. People want more convenience and Amazon is currently at least experiencing some teething problems with the logistics for Prime Now and Amazon Fresh. So, it is not too late to be innovative and at the same time to increase awareness among shoppers that convenience comes at a price. If retailers think in that way about innovation, they can also tackle the hard discounters by providing better services instead of price cuts.

GRB.

It seems as if the pace of change in retail is so fast, that predicting the next change will take longer than the change itself. How do you manage to spot trends in time to give your clients some competitive advantage?

BW.

Our team of senior analysts is responsible for monitoring the developments and innovations of the European retailers every day themselves. We don't outsource the tracking of the developments to a low wage research team. The detailed knowledge of our analysts on industry trends and the latest developments at each company is one of the reasons why our advisory service clients enjoy working with our analysts so much. And: Our forecasts are much more realistic and down-to-earth than those of others. For example, when Amazon Fresh and Amazon Prime Now launched in Europe we forecasted its growth very conservatively, as we correctly predicted that there would be issues with Amazon Logistics, that the company would want to implement test and learn and a market-by-market approach and that to the service would be limited to densely populated urban areas for a long period of time. Amazon is nevertheless hugely influencing and changing the grocery industry as it positions itself as an industry partner and raises customer expectations to an almost irresponsible extent. But the sales volume of Amazon Fresh won't be a big problem for other grocers, at least not in the short term.

GRB.

Your experience and perspective provides you with a unique and advantageous viewpoint within the grocery retail space in Europe. When combined with that of your team, the depth of knowledge is truly impressive. So explain to me, how do retailers rationalise not utilising the services you offer?

BW.

(Laughing). Some of them are already spending so much money with Accenture and McKinsey that it seems hard for them to justify working with such a small and specialised analyst group as ours at affordable day rates. But really, small and large retailers and their suppliers very much appreciate working with our analysts as they are

100% focused and specialised on the European retail market. We don't cover the automotive industry and we don't pretend to know the strategy of the local retailers in Malaysia. Neither are we experts for the fashion industry. We provide only what we know that we can do really well: Intelligence on the European Grocery Industry.

GRB.

Imagine for a moment that you decided to take the next ten years travelling the world, off the grid, ignoring retail. When you got bored of all that adventure and relaxation and returned to Europe, what would the retail landscape look like.

BW.

In ten years from now, Amazon will have arrived in the world of grocery retail as a major player and shopping for groceries online will be normal in most countries. But this is more a threat to the hard discounters than to the full-range grocery retailers. Because a small assortment does not fit to the expectations of online shoppers.

In 2028, shoppers will come home from work to find the groceries they ordered the same day in a chilled parcel box alongside their letter box. New last mile logistics systems will make the shipping of groceries affordable. The industry won't need landing places for drones to make that a reality if they work in partnership with logistics providers. In ten years from now, we unfortunately won't see the nice Tesco driver in his uniform who comes with a Tesco van, rings the bell and helps us to bring our shopping into our fridge anymore. These individual systems are simply too cost intensive.

But unfortunately, I can't go off travelling and ignoring retail. It's an exciting time now that so many things are happening in the industry, and I would like to be a part of it.