KANTAR CONSULTING

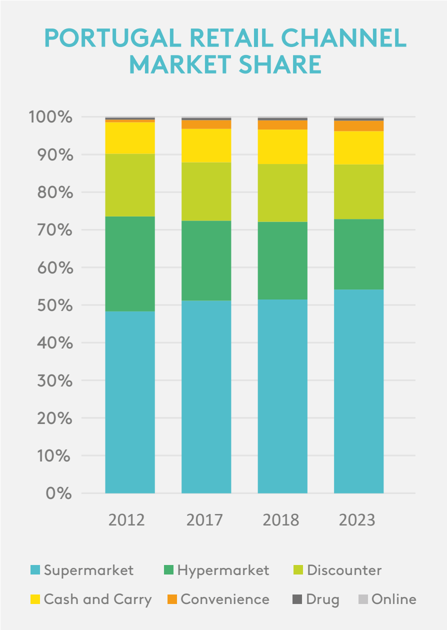
LISBON: A CITY DEFINED BY UNCHARACTERISTIC GROWTH

UNLOCKING THE OPPORTUNITY IN THIS HOTBED OF COMMERCE INNOVATION

Unlike most European countries, Portugal has seen strong economic growth since emerging in 2014 from the country's IMF Economic Adjustment Programme. In 2017, Portugal's economy grew at a rate of 2.7%, which outstripped the Bank of Portugal's early prediction of 1.8% and even its mid-year revision to 2.5%. The FMCG sector saw an increase of 0.7% in 2017 according to Kantar's Europanel data, the first year since 2014 that the growth has been below 2.5%. Combined with the growing economy, retail sales have also increased by 2.8% in the years 2011 to 2017, and are forecast to rise a further 4.1% between 2018 and 2022. Furthermore, since 2009 the number of grocery retailers in Portugal has almost doubled, rising from 1,678 to 3,382, though the number of banners operating these outlets has decreased from 36 to 32; so, while there may be growth, the spoils are shared amongst fewer players.

A MICRO-CLIMATE RIPE FOR GROWTH

It would be remiss to examine Portugal without acknowledging the renaissance that has occurred in Lisbon. The city has experienced a boom since the turbulent times of the economic crisis, and while Portugal's population has decreased steadily since 2007, Lisbon's has increased. Therefore, one should examine Lisbon through a different lens than the rest of Portugal, and potentially use it as a bellwether for the country. Similar to the factors that made Berlin so appealing



2012-2023 GROWTH RATE OF SUPERMARKET CHANNEL RETAILERS (RANKED BY 18-23% GROWTH)

	2012- 2017	2018- 2023
Corte Ingles (El)	208.80%	51.76%
Auchan	N/A3	1.19%
Jeronimo Martins	19.72%	28.89%
Iceland	218.68%	23.36%
Sonae1	3.69%	19.80%
Intermarche	15.46%	17.13%
Froiz7	.52%	7.62%

Source: Kantar Retail IQ

Source: Kantar Retail IQ

to a young creative class – a low cost of living and an appreciation for creativity, yet with the infrastructure of a large city – Lisbon has become attractive to those who want to live in a city as creative as Berlin, with better weather. Indeed, Lisbon's population is predicted to grow from an estimated 2,812,000 in 2010 to reach 2,943,000 this year (UN Urban Agglomerations). Over the same period, Portugal's population will have decreased from 10,640,000 to 10,291,027 (UN and IMF). This socio-demographic shift has resulted in retailers having to embrace innovation and adapt their propositions to cater for distinct consumer profile to that found elsewhere in Portugal.

MILLENNIALS HAVE DIFFERENT DEMANDS

The change in the way younger generations work has benefitted cities like Lisbon where millennials can take advantage of the gig economy, and work remotely while living in an affordable and vibrant city. With the change in shopper habits, and decrease in car ownership, retailers are focusing efforts on proximity retail, and services that provide easy, fast and cost effective shopping solutions.

Companies like Sonae, parent company of the Continente and Meu Super banners, are increasingly investing in the convenience format as they consider Portugal to still be an underpenetrated market; a prudent strategy when you consider they're the fastest-growing retailer in Portugal. Others, such as Auchan, have announced they'll invest €90 million in the coming years on both refurbishments and new store openings, while Lidl stated that in 2018, they plan to invest €100 million into new stores and refurbishments within Portugal.

The change in the way that millennials shop can be in part attributed to the fact that they are digitally-native and expect that physical retail should be experiential, as it is much more difficult to convey this through the online channel. This is forcing retailers across the spectrum to innovate and embrace omnichannel as the norm, it is no longer a point of differentiation.

Auchan's Jumbo banner recently launched an app in Portugal that enables shoppers to create their shopping lists in-app, and once in store use its mobile checkout functionality. Although it is important for retailers to embrace online, it is understandable why they see convenience as vital to success, as according to Kantar's own data, in the years 2017 to 2022, we expect a CAGR of 7.8 % in the convenience channel compared to 8.9 % for online; so, while online remains a key area for growth in Portugal, convenience is also of particular importance. One difficulty for retailers is that, with price remaining an important factor in purchasing decisions, balancing the provision of innovative solutions while maintaining margins, will be increasingly challenging.

2012-2023 GROWTH RATE OF CONVENIENCE CHANNEL RETAILERS (RANKED BY 18-23% GROWTH)

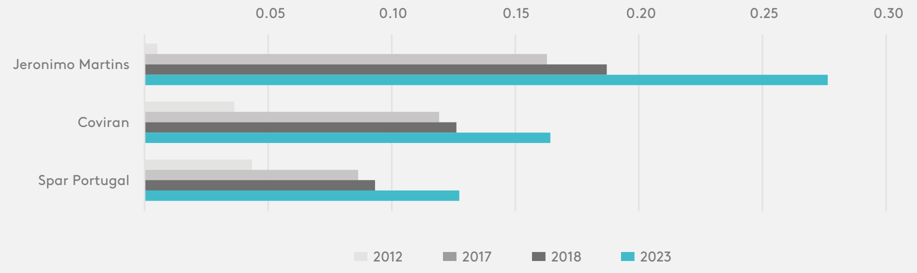
	2012-2017	2018-2023
Jeronimo Martins1	706.84%	46.77%
Spar Portugal	90.56%	35.02%
Coviran2	05.83%	29.17%

Source: Kantar Retail IQ

NEW WAYS TO RETAIL

Although Lisbon is experiencing a surge in popularity, there is a tension between the native inhabitants and newly arrived creative class, as they're driving up the cost of living in a city where the average salary is still only €858.64 per month. Pricing is still considered important, though shoppers are becoming increasingly willing to pay for convenience. Therefore, it is imperative that retailers innovate and identify ways to attract both divergent audiences at the same time to flourish. While companies like Lidl will focus on price, others like Auchan through their 'My Auchan' stores in Lisbon have identified means of adding features and building brand loyalty – their Avenida da República location includes a complimentary co-working space. The inclusion of a co-working space is particularly clever, as it caters to those with jobs in the gig economy, and to the start-up scene that has emerged in Lisbon. The burgeoning start-up scene in Lisbon has also meant that retailers keen to innovate can leverage the creative thinking to their own benefit. Both Auchan and Sonae have created schemes to attract start-ups relevant to retail; Sonae with its Disrupt Retail encouraging anyone with technology based solutions that have the potential to affect retail to come forward, and Auchan Holding with Start-up SCAN, which seeks any innovative ideas, products, or solutions, for its retail or distribution channels.

Through schemes like these, retailers have the potential to attract revolutionary ideas with little capital investment, focusing instead on offering access and mentorship rather than funds. The creation of these schemes is a particularly canny move on the part of Auchan and Sonae, as it not only provides them access to future thinking while minimising investment and risk, but creates new ways to build closer relationships with potential shoppers.



A NEW DAWN

These factors mean it is an exciting time for retail in Lisbon. With great opportunities comes great challenges. Capitalising on the potential provided will require brands to collaborate and partner, not only with traditional retail customers, but new innovative route to consumer models. Treat the city as an innovation retail playground, leaning in to test and learn, while being willing to fail fast. What is learned here can be rolled out not only in Portugal, but elsewhere in Europe. With growth becoming harder to find, it will be markets like Portugal, and the gems found within that unlock it, that brands and retailers alike would be prudent to pay attention to.

IMPLICATIONS FOR BRAND

Lisbon is a city undergoing a transformation, and the young creative culture its fostering means that it is an exciting market for brands to participate in. The startup scene and changing demographics means that it can act as a testbed for store format innovation – as Auchan is already doing – and brands that do this successfully can harness learnings to increase chances of winning in other markets. The evolution of the city also means that brands will need to find new routes to consumers and use on-demand fulfilment solutions as consumer expectations of speed and convenience rise. It will also be important for brands to lean into collaborations and partnerships, perhaps with unusual bedfellows, the example of Sonae and Auchan both leveraging the vibrant startup community in Lisbon to innovate is a perfect one – move outside of your comfort zone and try new things. More and more, consumers are favouring new ways to shop, subscription models and direct to consumer solutions shown there are still new ways to reach consumers and innovate. If a brand can do these things successfully, it should help unlock the growth that has become increasingly hard to find.

EVENTS CALENDAR
SAVE THE DATE

When	Event
25 JUL	HEALTH & WELLNESS WORKSHOP - JERSEY CITY, NJ
26 JUL	DRUG CHANNEL WORKSHOP - JERSEY CITY, NJ
8 AUG	ALBERTSONS SAFEWAY - VIRTUAL EVENT
19 SEP	CANADIAN RETAIL CONFERENCE - TORONTO, ON
20 SEP	CANADIAN ECOMMERCE CONFERENCE - TORONTO, ON
20 SEP	EUROPEAN DISCOUNTERS PLANNING WORKSHOP - FRANKFURT, GERMANY
26-27 SEP	CONVENIENCE & SMALL STORES CONFERENCE - CHARLOTTE, NC
3-4 OCT	REGIONAL GROCERS CONFERENCE - TAMPA, FL
9-10 OCT	RUSSIAN RETAIL KEY ACCOUNT PLANNING WORKSHOP - MOSCOW, RUSSIA
17 OCT	TARGET WORKSHOP - VIRTUAL EVENT
23 OCT	CONVENIENCE RETAILING WORKSHOP - LONDON, UK
23 OCT	DIGITAL LEADERSHIP WORKSHOP - SEATTLE, WA
24 OCT	AMAZON WORKSHOP - SEATTLE, WA
14-15 NOV	WALMART & SAM'S CLUB WORKSHOP - BENTONVILLE, AR
5 DEC	TURKISH RETAIL KEY ACCOUNT PLANNING WORKSHOP - ISTANBUL, TURKEY
12-13 DEC	INSIGHTS CONFERENCE - ATLANTA, GA

KANTAR CONSULTING

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