KANTAR CONSULTING

BERLIN
MILLENNIALS' FAVOURITE CITY MATURES

BERLIN

Germany's economy remains the largest in the EU, and the fourth-largest in the world (The World Bank). Although its growth has been somewhat below that of the EU as a whole, it is steadily growing, increasing by 2.2% in 2017 (Eurostat). Within this strong economy, Berlin has been growing faster than the country, registering growth of 3.6% per annum between 2006 and 2015 versus the country's 2.7% over the same period. The city-state has prioritized investment in Research & Development (R&D) to foster the startup culture flourishing in Berlin, with the gross expenditure on R&D totalling 3.55% of the regional GDP in 2013, versus the national total of 2.82% (Eurostat).

This burgeoning economy and lively startup scene (scoring 9.0 out of 10), along with various other metrics, contributed to Nestpick naming Berlin as the best city in the world for millennials in 2018. The boom that Berlin has undergone in recent years, along with its relatively low cost of living means that Berliners have the second-highest level of disposable income in Germany. For retailers and suppliers this means Berlin has the potential to be a lucrative environment, though the demands of its denizens may be more difficult to meet than in other German cities. The biggest opportunities in Berlin exist within the growing convenience and online channels, although success is not necessarily guaranteed.

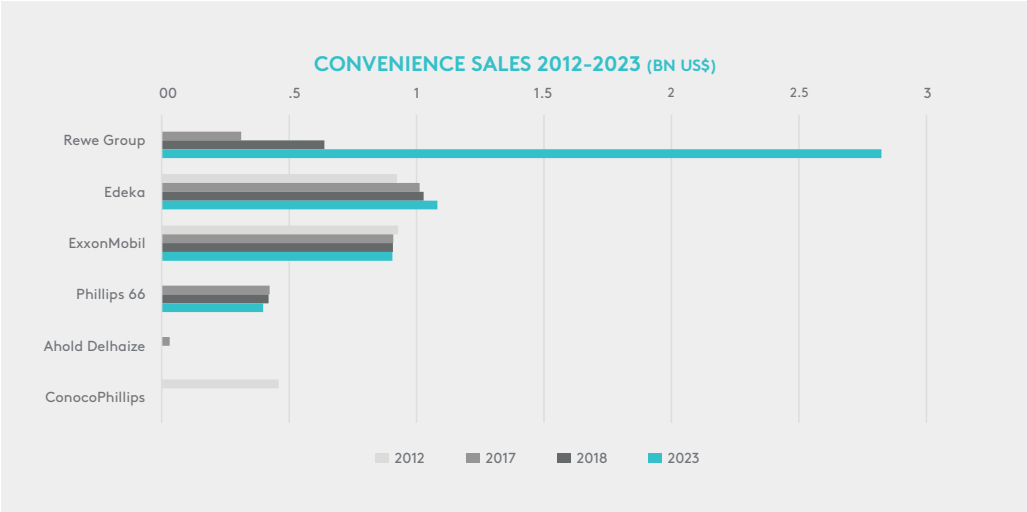
CONVENIENCE

The convenience channel continues to grow apace in Germany, with Berlin being one of the biggest markets. The young urban population want their lives to be made easier and are willing to pay a premium for the privilege. The convenience channel has experienced significant growth in the years 2012 to 2017, with only online outperforming it. Because of this

% GROWTH OF CONVENIENCE RETAILERS 2017-2023

	2017-2018	2018-2023
Rewe Group	104.41%	342.06%
Edeka	1.56%	5.26%
ExxonMobil	0.21%-	0.22%
Phillips 66	-1.01%	-4.94%

Source: Kantar Retail IQ



Source: Kantar Retail IQ

sizeable opportunity, Rewe and Edeka have invested substantially in the channel, with Edeka's Spar Express banner currently boasting the greatest number of outlets. Rewe has invested heavily in their Rewe To Go banner, which is currently the fastest-growing retailer in the channel. Success is not guaranteed within this growing channel however, with Albert Heijn closing all its Albert Heijn To Go stores at the beginning of 2018, perhaps due to an over-emphasis on Dutch products rather than what consumers genuinely desired. One unusual entrant in the lucrative convenience channel is Deutsche Bahn, who are leveraging their ideal-for-convenience real estate portfolio to attract shoppers into their Service Station DB stores on their commutes; they expect to reach 250 locations across Germany by 2021. Although convenience remains an attractive opportunity, one cannot ignore discounters in the German market, as their market share is expected to continue to grow, even from its current 40.9% share.

THE CHALLENGE FOR DISCOUNTERS

For discounters, the challenge remains how to appeal to a new generation of shoppers and meet their needs, when their needs require investment and development of infrastructure – a difficult task when your business model relies on slim margins and efficiency. Online grocery is an underdeveloped channel in Germany, and the largest retailers, Aldi and Schwarz Group, have struggled to implement effective eCommerce solutions. Lidl abandoned their Lidl Express click & collect format locations in Berlin in order to focus on expanding their general merchandise online offering in other countries. Schwarz Group suffered another digital setback, cancelling their Kaufland online grocery

delivery service as they stated that, although demand was high, it was not an economically viable proposition. In this evolving market, discounters are having to find new ways to attract new customers, and see continued growth. For example, Aldi Nord is building 2,000 new apartments in Berlin on top of new stores, with a portion of these apartments being offered at the square metre rate for social housing. Aldi has also invested in building out its organic range to appeal to shoppers who are increasingly socially-conscious – in Berlin they also raised the price of their disposable shopping bags by 100% to encourage shoppers to switch to reusable alternatives. Although discounters are having to find new ways to engage with Berlin's youthful citizens, there are already some promising examples.

% GROWTH OF TOP 5 DISCOUNTERS 2017-2023

	2017-2018	2018-2023
Action	55.38%	175.55%
Coop eG	1.50%	76.28%
Norma5	5.14%	24.45%
Edeka	2.84%	18.74%
Kodi	3.50%	17.39%

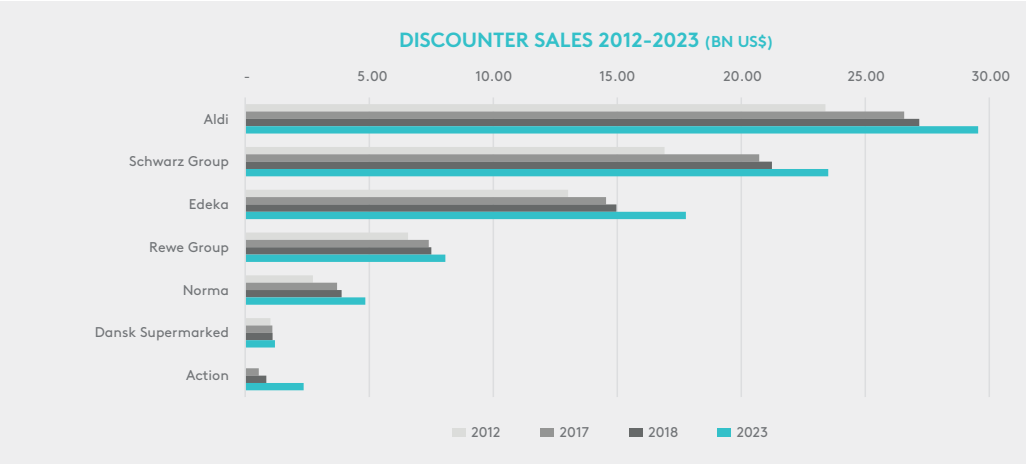
ALTERNATIVE WAYS TO ENGAGE BERLINERS

As Berlin has evolved and become one of the startup capitals of the world, new methods of reaching consumers have appeared. Berlin is where HelloFresh was founded, offering its time-pressed subscribers boxes filled with recipe cards and all the necessary ingredients in pre-measured packets. In addition to this, Amazon have launched their Fresh and PrimeNow services in Berlin, demonstrating that although Germany may be behind the rest of Europe in its adoption of eGrocery, it is likely that for Berlin, eGrocery will become a key battleground. Even though Schwarz Group's Lidl banner cancelled their Berlin trial of click and collect and Kaufland ended its online delivery service, Lidl continues to compete with Amazon Pantry by offering their Vorratsbox, giving shoppers choice from a more limited selection than Lidl offers in-store, but with the convenience of being delivered to their home or to a DHL pickup point in 2-3 days. Edeka has also stepped up the fight with PrimeNow in Berlin by offering same-day delivery via its Bringmeister delivery offering. Another operator key for Berliners is METRO, whose wholesale business is key to the city's flourishing restaurant trade, now further enhanced by the addition of high-margin premium wholesale service, Rungis Express. METRO is also leveraging Berlin's innovative culture by establishing its METRONOM digital development hub in the city while Berlin also hosts its annual Techstars Accelerator programme for innovative retail-facing startups.

Working hand-in-hand with the city's startups has fuelled further innovative moves from Germany's supermarket majors. Rewe recently became the country's first retailer to offer mineral water from Berlin-based social food brand Share across all its stores. The brand not only uses 100% recycled packaging, but also donates an equivalent item to charity for each SKU purchased. Share products are also featured as part of Rewe's eGrocery offer, which enjoy strong prominence at its many locations in the capital, with fulfilment either via home delivery or pickup at its inner-city stores.

WHAT DOES ALL THIS MEAN?

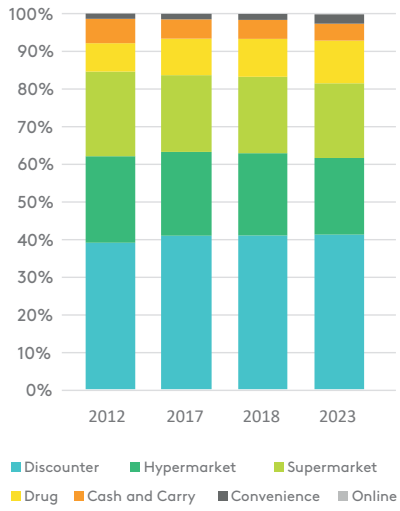
All this change and growth in Berlin mean that it is fertile ground in which to grow. The lucrative convenience market is attracting unconventional entrants like Deutsche Bahn, demonstrating that for



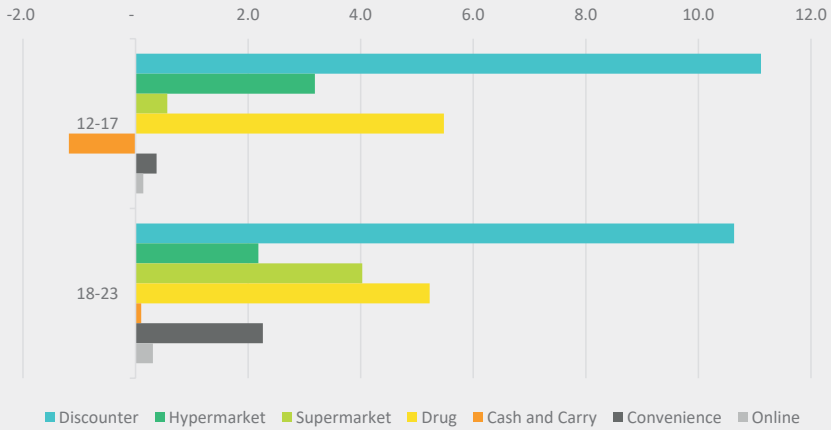
Source: Kantar Retail IQ

them, the potential reward is worth expanding into new areas as they look to find growth. Given Berlin's burgeoning convenience sector, it will be important for discounters, who are expected to maintain their primacy within the market, to find ways to appeal to shoppers looking for ways to make their shopping trips easier – the challenge is that discounters will need to find innovative ways to make shopping more convenient while managing their limited margins. For many years, Germany has lagged in its adoption of eGrocery; however, it is expected that this channel will see substantial growth in the next five years and as shoppers' lifestyles become busier and they put a greater emphasis on enjoying as much of their free time as possible, getting online grocery and delivery right will be vital to win.

GERMAN RETAIL MARKET COMPOSITIONS 2012-2023



CHANNEL % GROWTH 2012-2023



Source: Kantar Retail IQ

STORE VISITS

REWE

Germany's largest supermarket retailer, Rewe, operates a variety of banners and most recently has been innovating in the convenience format. Their focus is on quality and value for money and they are leveraging digital in order to win a variety of shopper missions.

METRO

METRO is Germany's largest cash & carry operator and boasts 103 locations across the country. While the majority of its clients are small business owners, they also sell to household shoppers. METRO has established a technology division, METRONOM, to develop digital solutions for the foodservice and hospitality industry.

FRISCHE PARADIES

Starting life as a collection of independent specialty food retailers, these were brought together under the Frische Paradies banner in 1995. The focus is on high-quality specialty foods and they operate 10 locations across Germany.

PENNY

The discount banner of Rewe Group, it is one of Germany's most popular discounters and operates 2,150 locations across the country. It defines itself as a neighbourhood supermarket, focusing on providing high quality at low prices.

KAUFLAND

Part of the Schwarz Group, Kaufland is Germany's second-largest operator and one of the few hypermarket banners currently experiencing growth in Europe with their blend of traditional supermarket and discounter having an enduring appeal with German shoppers.

GLOBAL / H2 2018
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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

Kantar Consulting is a specialist growth consultancy. With over 1,000 analysts, thought leaders, software developers and expert consultants, we help clients develop and execute brand, marketing, retail, sales and shopper strategies to deliver growth. Kantar Consulting owns market leading assets including, **PoweRanking**, **GrowthFinder**, **Global Monitor**, **Retail IQ**, **RichMix** , **XTEL** and **Marketing**, **Insights and Purpose 2020**. We track 1,200 retailers globally, have purchase data on over 200 million shoppers and forecast social, cultural and consumer trends across the world. Join us and you'll be part of 30,000 colleagues and 12 world leading research, data and insight brands at **Kantar**. At the heart of WPP, our unique consumer insight inspires clients to flourish in an extraordinary world.

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