KANTAR CONSULTING

GERMANY

FOOD RETAIL COUNTRY REPORT

RETAIL IN GERMANY

INTRODUCTION:

THE END OF STABILITY - CHANNEL REINVENTION AND NEW CHANNELS

The German retail market is highly concentrated, with a small number of retailers controlling the vast majority of sales. Market concentration is particularly high in the supermarket channel, where Edeka and Rewe control nearly all supermarket sales, following the impending takeover of Germany's third largest supermarket chain, Kaiser's Tengelmann. As a result of this two-retailer constellation, both Edeka and Rewe have positioned themselves at the centre of the market in an effort to appeal to a broad spectrum of shoppers. Increasingly, this puts them in direct competition with "food discounters" – Aldi Nord, Aldi Sud, and Lidl – as discounters attempt to broaden their appeal and geographic reach.

Concentration and format differentiation have had a "stabilizing impact" on retail. Apart from the market share gains from the discounter format in the period between 2005-2013, the German retail channel mix has been characterized by relatively high channel stability. German consumers, unlike other developed markets, tend to spend less on food away at home. This has resulted in food-at-home retail solutions in a state of flux as all retailers innovate in a battle for same-store sales growth. Market saturation and declining populations have strained store profitability. In a word, the age of stability is coming to an end.

There are two dynamics driving this change: channel reinvention and the emergence of "new channels". Whilst discounters evolve their business model and shopper proposition, supermarkets are reinventing themselves to cater to changing shopper needs. Coinciding with this is the growth of new channels like proximity and online, which are growing market share. In this report Kantar Consulting will look at the changing dynamics of each channel and take a look at new channels emerging.

The best way to look at the German Landscape and how it will change from 2015-2020 is to look at the forces of change. We begin with the discounters.

Figure 1: Discounter Retailers (sales in EUR billion)

Retailer	Home Market	Sales EUR mill		Sales CAGR		Stores	
		2016E	2021E	'11-'16E	'16E-'21E	2016E	2021E
Aldi	Germany	€ 29,883	€ 36,322	5.3%	4.0%	4,218	4,217
Lidl	Germany	20,126	22,643	5.1%	2.4%	3,159	3,159
Edeka	Germany	9,771	10,639	-4.3%	1.7%	3,773	3,916
Penny Market	Germany	7,049	7,417	0.7%	1.0%	2,114	2,051
Norma	Germany	3,526	4,371	7.5%	4.4%	1,350	1,375
Netto Supermarkt	Denmark	1,088	1,172	2.0%	1.5%	349	351
Tedi 1 Euro Discount	Germany	406	389	2.5%	-0.9%	1,317	1,254
Action	Netherlands	289	1,076	125.0%	30.1%	111	266
Mac Geiz	Germany	191	242	10.5%	4.9%	304	354
Kodi	Germany	156	186	6.2%	3.6%	268	302
Fakta	Denmark	10	11	100.0%	2.1%	3	3
SK Discount	Germany	3	4	2.3%	4.6%	3	4
Discounters Total		€ 72,497	€ 84,472	3.3%	3.1%	16,969	17,252

Source: Kantar Consulting database

DISCOUNTER COMPLEXITY IN THE AGE OF INNOVATION

Discounters dominate the German grocery retail market, ahead of supermarkets and hypermarkets. The combination of the Nord and the Süd Aldi businesses creates the largest discounter in the German retail market, followed by Lidl (Schwarz Group), Netto (Edeka) and Penny (Rewe). The fifth-largest player in the discount channel is Norma—a family-run retailer concentrated in the southeast of Germany.

While the discounter channel has been growing rapidly in the past, growth is slowing down because of increasing market saturation and intense out of channel competition in the form of online and the reinvention of supermarkets. As a result discounters need to innovte. This era of innovation is different to any otherera, as it is heralding in unprecedented amount of change and complexity. The difficulty is that the speed in which discounters are innovating, mean change has become constant in Germany.

As discounters enter this new era of growth, discounters are adding huge complexity to their model as they adapt to new shopper needs and a new competitive set. Each discounter is taking a different path forward, creating a wider range of differentiation, opportunity for partners and complexity.

FINANCIAL AND OPERATIONAL COMPLEXITY

The basic principal of the discounter model is to sell a lot for a little and keep costs to a minimum. Whilst this financial and operational model is not inherently changing, the means to deliver results is. This is a result of discounters having to move to service and innovation to drive growth. One of the biggest changes to the discounter's efficient model and tightly-controlled finances is the investment in labour. Not only are German discounters increasing wages to hire the "best, young" candidates, but they are also hiring more numbers in-store than ever before to work in the new in-store bakeries and other service-based additions to the model. Lidl leads this evolution in Germany, having recently implemented an initiative for all store managers. This initiative for store managers focuses on larger stores, as well as having more complex assortments and developing managerial responsibilities to work in a new discount environment with larger numbers of employees per store.

MULTI-CHANNEL COMPLEXITY

Discounters have added more stores than any other channel in the last 10 years in Germany. However, the years of rapid store expansion are over as the likes of Lidl close unprofitable stores as they shift focus towards same-store sales growth. The majority of Discounters are still geared up to fulfil replenishment and main shopping trips. However, Lidl and Aldi want to capture and cater to more missions, specifically top up and for tonight/for now.

To do this requires a multi-channel approach, meaning moving formats away from one size fits all to a flexible approach that gets its offer closer to shoppers. This multi-channel shift also means Discounters such as Lidl now operate four distinct formats allowing it to further encroach on the rest of the trade in terms of locations and shopper missions. Each of these comes with its own set of requirements and challenges (Figure 2).

The biggest danger for retailers in Germany is that Multi-Channel Discount is driven by testing and learning behaviour, which heavily influences shopper dynamics. One example of this shift is the modular approach Discounters adopt in bigger stores, dubbed stores of the future.

STORE OF THE FUTURE

Discounters built their stores around two principles - the treasure hunt (Non Food offer) and on restocking efficiency (pallet retailing). In the age of Innovation these stores have had to become easier and more pleasurable to shop. As discounter penetration has reached almost 100% shoppers have become more loyal and as a result have different expectations from a Discounter than in the past

Figure 2: Discounter Formats

	Formats	Requirements	Challenges
	Full Service Store	– Bigger and Better stores – Specialist staff – Full Assortment	– Suitable sites – Operating expenses – Expectations
	Neighbourhood Store	– High frequency locations More Staff – Limited Assortment	– Planning permission – Overcrowding – Reallocation of categories
	Express Store	– Smallest stores No Parking – Longer openings/more staff – Unique Assortment	– Competition for locations – Operating expenses – Replenishment
	Online Store	– Availability – Partnerships – Exciting Assortment	– Cost of delivery – Role of Non Food in store

store. But behind a better shopping environment, is the need for Discounters to reprioritize categories in store, defined as Hero categories. The growth of Hero Categories is an important strategic area for investment as they attempt to position themselves as genuine weekly shopping destinations. In these stores only a small proportion of the selling space is what we would call "permanent". Instead, the store is designed for flexible space use (ability to break down and move shelves) or temporary space, such as increasingly using gondola end promotion. This modularity ultimately allows Discounters to adapt their stores quicker than rival retailers, differentiate and unlock more sales opportunities.

PROXIMITY

With proximity and not just price now a key driver for German shoppers, discounters have to open smaller stores in "uncomfortable places" to get closer to the shopper. These "uncomfortable places" include train stations, high streets, and apartment blocks. The larger discounters such as Lidl and Aldi have the financial strength and experience in adapting their offer in smaller inner city locations. However, the likes of Rewe-owned Penny and Netto Marken are now looking to follow suit. Penny has revitalized the small store proximity concept considerably as it searches for new sites offering 400-500 square metres in central and residential areas. Furthermore, Netto has a new concept to improve its store network productivity, particularly in city centres. The continued trial of Mein Laden (My Shop) puts greater emphasis on fresh foods and food-to-go/immediate consumption.

ONLINE

Lidl will start trialling click and collect on fresh and frozen grocery in Berlin from December, following a trial by Kaufland. Lidl also acquired Kochzauber, a local grocery delivery company in Germany. Kochzauber delivers boxes of ingredients for meal solutions, with prices starting from EUR 39 per box. The move was seen as a precursor to allow Lidl to expand its

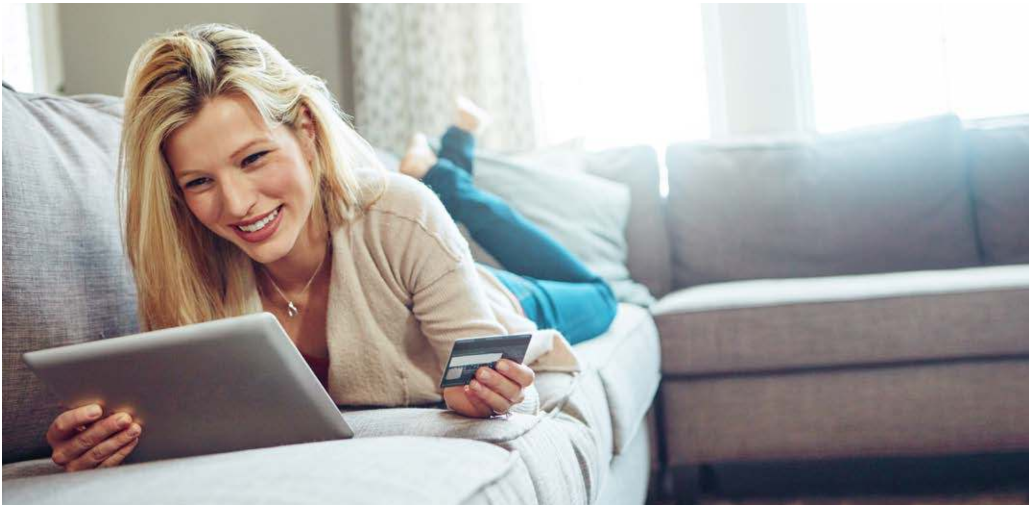


Figure 3: Supermarket Retailers (sales in EUR billion)

Retailer	Home Market	Sales EUR mill		Sales CAGR		Stores	
		2016E	2021E	'11-'16E	'16E-'21E	2016E	2021E
Edeka	**Germany**	**€ 21,468**	**€ 24,193**	**3.1%**	**2.4%**	**6,845**	**6,990**
Rewe	Germany	20,943	23,012	3.5%	1.9%	6,410	6,606
Kaisers	**Germany**	**1,941**	**2,173**	**-2.1%**	**2.3%**	**501**	**498**
Migros	Switzerland	1,151	1,242	85.2%	1.5%	278	276
K+K	**Germany**	**627**	**744**	**3.1%**	**3.5%**	**216**	**221**
Markant	Germany	115	128	0.1%	2.3%	31	32
Supermarkets Total		**€ 46,245**	**€ 51,493**	**3.5%**	**2.2%**	**14,281**	**14,623**

Source: Kantar Consulting database

online grocery offer further which began with non-food in 2009 and has since evolved to include wine and ambient grocery line.

The evolution of its online offer and the trial of click and collect are increasingly being seen as a reaction to Amazon in the market, especially considering the imminent launch of Amazon Fresh. Indeed after the launch of Amazon Prime Pantry in Germany, Lidl launched its own Vorratsbox (storage box). The Amazon service allows shoppers to fill a set sized box of 20 kilograms with a variety of household products for a flat shipping fee of EUR4.99. Pantry boxes will be delivered to Prime members in Germany within 2-3 days. Lidl's version allows shoppers to create their own box from its own range of food and health and beauty products. Products are discounted and shipping is also fulfilled in 2-3 days.

SHOPPER COMPEXITY

A third strategy discounters have been using to drive sales involves activating new shopper groups and retaining loyal shoppers. In order to achieve this, discounters have been softening their hard-discounter models. More specifically, they have been putting less emphasis on price in their marketing communications in favour of emphasizing other aspects of the brand, most importantly quality and choice. They are doing this most effectively by servicing a variety of different missions, including top-up, stock-up, special occasions, and daily shopping trips. Discounters are widening their product portfolios in order to include more premium and food-for-now/food-for-later products, which helped them to further improve their image.

Discounters also have to now engage the multichannel shopper. Mobile applications are increasingly being used as one way of doing this, with these "apps" often having a focus on service and promotions/weekly specials as well as the traceability of products. The final step in building a more shopper centric offer is through data. Lidl is building a new data hub to enable better analysis of big data to create better insights on shoppers, assortment, prices, customer communication and promotions through new software. Lidl will invest a double-digit million Euro sum on the project, which includes upgrading its warehouse data and investing in a new integrated IT system.

SUPERMARKET REINVENTION

The German supermarket channel is highly concentrated, with Edeka and Rewe controlling almost 87% of sales (Figure 3). Other supermarket chains that have been consistently squeezed by Rewe and Edeka are looking to fight back. Smaller players can be successful if they carve a niche for themselves (such as Tegut and Basic, who offer a large share of organic products). Tengelmann, who runs the third biggest supermarket chain, has seemingly lost the battle. The intended acquisition of Kaiser's Tengelmann has been ongoing for over a year with the takeover blocked for fears regional supermarkets and other stores in Oberbayern, North Rhine Westphalia and Berlin would stand to considerably worsen their competitiveness. Negotiations between Rewe and Edeka have failed to find a solution over the acquisition. At the same time price deflation has been putting extreme pressure on volumes coming from the supermarket channel. Most brands have decided it is extremely important to drive promotions in order to keep category Euro values steady in the supermarket channel.

As the German discounters enter the age of Innovation so too have the biggest German supermarkets, Rewe and Edeka. Supermarkets have identified reinvention as the prime strategy to win back market share from discounters and it is working. Reinvention centres on new property and shopper strategies.

PROPERTY

The requirements for winning supermarkets are changing. In the past, supermarkets focused on larger stores with a lifecycle of 10-15 years. This catered to specific consumers, who would use drive-up, big basket weekly shops. With the growth of internet retailing and changing shopper dynamics, Edeka and Rewe have had to adapt their property strategy. As consumers continue to favour convenience and unplanned shopping trips that dovetail with busier lifestyles, supermarkets have to open smaller stores in proximate locations. Rewe has been catering to this need by launching new store formats with a particular appeal to younger, affluent shoppers in urban locations: Rewe City (500–1,000 square meters) and Nahkauf (150–500 square meter stores that focus on fresh and convenient food).

Edeka is beginning to put large cities in its expansion focus after informing members about "promising possibilities" in inner-city areas. Edeka is particularly interested in expansion in Frankfurt, Munich, Stuttgart, Hamburg, and Berlin. The market leader does not have a very strong presence in most of these cities, and is looking at opening smaller stores with less focus on parking. Long-term builds are no longer viable, and these stores will have a shorter lifecycle than in the past. Due to changing shopper needs, store layouts must also be flexible. This means Rewe and Edeka have to be more modular in their store planning both inside and outside the store if they are to win in the battle for LFL sales.

SHOPPER

To coincide with a new property strategy, supermarkets are reinventing themselves to cater to new shopper needs. In the past, supermarkets followed a number of strategies to win back market share from discounters. They have tried to beat discounters with their own signature weapon—price. In addition, supermarkets have tried to win shoppers through unprecedented promotion efforts. However, shoppers, more specifically the way they both shop and receive goods, has changed.

Shoppers no longer have to use the store as the primary avenue to shop. With the growth of mobile and internet, shoppers can now shop outside the store. Conversely, shoppers no longer have to use the store as a primary place to receive their goods. Shoppers continue to demand newer ways of shopping at their convenience, whether through delivery at home or pickup points on their way from work. Furthermore, shoppers have new requirements and demands. They require new and faster ways to pay for their products, and they demands products that target their individual needs, whether it be local products or food on the go. This means Edeka and Rewe have had to adopt a shopper-first mentality.

The fact that both Edeka and Rewe use decentralized operation models, franchising most of their supermarket outlets to smaller retailers, means that they are positioned to cater to local needs in terms of their total offer. Independent ownership of stores continues to be their key strengths and growth drivers, as well as their favoured mechanism for driving profitability. Both Edeka and Rewe aim to support independent store owners continuously to improve their return on investment, planning to rapidly increase the number of independently-owned stores over the next few years. This will see them extend trials of new in-store technology, such as self-checkouts and mobile payment scanners, and focus on growth categories such as HBC and food-to-go/immediate consumption. To facilitate a new shopper-first mentality, Rewe has also gotten on board with one of Germany's largest loyalty card schemes, Payback, and it will look to use big data to customize their offer to the individual shopper. However, as a result of this franchise model, implementing innovative marketing strategies becomes very difficult, which makes Edeka and Rewe

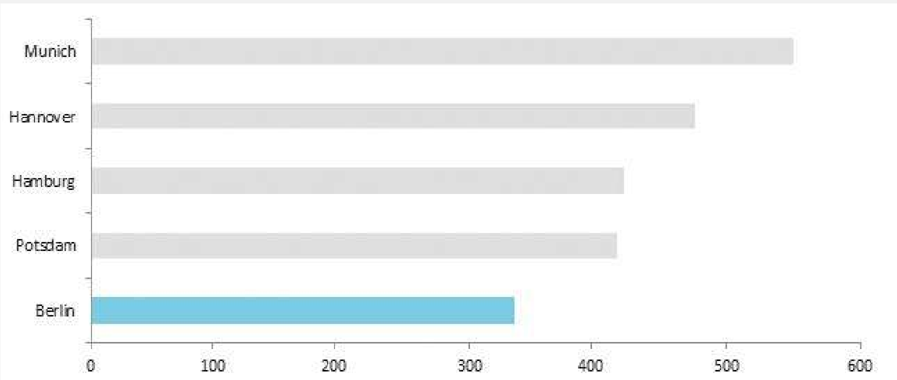
slow to respond to new shopper trends.

Finally, Private Label, another weapon of discounters, has been attacked by Rewe and Edeka. To dovetail a renewed focus on convenience, Rewe has launched a private label range called 'Rewe to go'. This is a healthy range aimed at customers who are looking for convenient snacks and meals. The move is the latest in several private label expansions for Rewe, which has included shopper centric ranges such as a free from range, gluten free range and lactose free ranges. Traditionally Supermarkets used private label to negate the price advantage of Discounters. However, they have begun to realise that the speed at which they can deliver a shopper centric private label range is ultimately a more powerful private label strategy than the one that focused on price in the past.

NEW RETAIL

The emergence of "new retail" is the second driving force causing the end of the age of stability. Berlin is a city where this is clearly being played out in Germany. The fall of the Berlin Wall opened up new possibilities for retailers as well as its citizens. Since reunification, retail has changed dramatically. In the past, most retailers gravitated towards the centre. However, once the wall was down, it allowed retailers to spread throughout the city and into the suburbs. Thus, Berlin can be considered one of the newest retail cities in Germany. Additionally, with Berlin becoming a focal point for the young and ambitious from a variety of different backgrounds, the need for exciting and "local" retail has grown. As a result, Berlin can also be considered one of the most unique retail cities in Germany. Finally, with huge investment in transport, apartments and growing disposable income the need and desire for urban retail has never been greater. Therefore, Belin can also be considered one of the most urban retail

Figure 4: Number of Cars Per 1,000 Inhabitants



Source: Federal Motor Transport Authority environments in Germany. This begs the question – how are Retailers reacting to these trends?

CONVENIENCE/ PROXIMITY

The convenience channel has traditionally held a small share of the German retail market as well as in Berlin. This is largely due to the large supermarket population and high supermarket density, and the fact that cars play a much smaller role in Berlin than in other major German cities (Figure 4).

All this combined means that shoppers do not have to walk very far for small top-up shopping trips or immediate-consumption trips. Thus, rather than offering a dense network of stores, convenience retailers in Germany adopted a different key appeal: longer opening hours. This is possible because the largest convenience chains are operated by petrol station groups, which have historically been exempt from the country's relatively strict opening-time restrictions. However, the liberalization of these laws in 2006 stripped forecourt stores of their competitive advantage, as many supermarkets now are open until 10 p.m. or even midnight.

However, the need for new convenience/ proximity has seen a variety of reactions from some of Germany's biggest customers. Rewe Group has expanded its Rewe to Go concept to include Berlin. The format focuses on a specific shopping mission at high frequency shopping streets and at railway stations. The Rewe to Go format stands for changing consumption habits offering about 1,000 SKUs within a concept that comprises 130 square meters of selling area. The assortment is focused on ready meals (sandwiches, sushi, salads, and fruit), bakery items, sweets, drinks, and specialty coffee (Figure 6).

Earlier this year, Rewe announced a partnership with Aral, the petrol station chain in Germany. This partnership will see the Rewe to Go concept located alongside

Figure 6: Rewe to Go, Berlin

Figure 5: Convenience/proximity retailers (sales in EUR million)

Retailer	Home Market	Sales EUR mill				Sales CAGR		Stores	
		2016E		2021E		'11-'16E	'16E-'21E	2016E	2021E
Edeka	**Germany**	€	**862**	€	**922**	**2.1%**	**1.4%**	**1,532**	**1,568**
Rewe to Go	Germany		34		159	107.3%	36.0%	20	75
AH to Go	**Netherlands**		**5**		**5**	**100.0%**	**1.5%**	**4**	**4**
Convenience/ Proximity Total		€	**901**	€	**1,086**	**3.0%**	**3.8%**	**1,556**	**1,647**

Source: Kantar Consulting database

petrol stations. It was initially a trial of 10 stores but is now being rolled out, with 50 stores set to open by the end of 2016, a further 200 scheduled for 2017 and 1,000 planned in total. Foreign retailers have also identified the growing need for convenience in Germany. This has seen Ahold open its own express format AH to GO. Ahold entered the price-aggressive, highly-saturated German market in September 2012. Its presence is limited to the German federal state of North-Rhine Westphalia.

ONLINE

The high density of supermarkets and hypermarkets in Germany also has hindered the emergence of another retail channel: online. While shoppers in other large European markets increasingly buy their groceries over the Internet (particularly in the UK, France and Switzerland), the online grocery channel is almost non-existent in Germany. The underdevelopment of the German online channel is related to the large retailers' decentralized retail models. These models give a lot of power to franchisees, who are likely to oppose the launch of an online store, given that this would cannibalize local sales.

Amazon, whose largest market outside the United States is Germany, will launch its Amazon Fresh offer in Germany. This has led to swift change in the German online grocery channel.

Rewe has launched a full service delivery offer and is also offering click and collect. The pilot scheme currently being trialled outside of Berlin, but likely to be adopted there too, costs EUR 2.00 and collection options are 24/7, meaning shoppers can collect products even when the store is closed. Cooled collection boxes allow for temperature sensitive categories such as frozen can be purchased. Payment for the service has also become cashless, with card payment the accepted mode of payment. This is part of Rewe's desire to fully ramp up its online offer, having previously focused on non-food, with an online

beauty shop and wine store. Indeed in a bid to make the model more sustainable and profitable, Rewe has raised its delivery prices. In the past, Rewe offered free delivery for orders above EUR 100 but this is now EUR 120. For orders below the minimum order, the cost has been raised from EUR 2.90 to EUR 3.90. The time slots for deliveries have also changed with the time slots of free deliveries now restricted to 7am-1pm and 2.30pm-10pm. However, the biggest surprise was Kaufland, the Schwarz Group's hypermarket banner, launching an online service in Berlin. The website offers the same prices as in-store. Delivery times are available between 7am-10pm and Click & Collect option will likely be available in the future. As we have read above, this trial has extended into Lidl, who will offer its own click and collect fresh offer in Berlin. The emergence of both online and proximity in Germany is a result of the biggest retailers' need for multichannel as they attempt to cater to shopper-first thinking.

NEW CONCEPTS

To cater to changing German consumer habits and a growing emotional connection with grocery, retailers are trialling and rolling out new concepts. "Oh Angie" was supermarket Rewe's newest Bistro concept. The modular store changes depending on the time of day. Food is freshly prepared, designed to be consumed at the restaurant. The daily offer starts with breakfast at 9.00 am and changes for lunch through to afternoon tea and dinner. Finally for later evenings drinks are served over the bar. Overall the store is designed to accommodate the needs of busy city workers who have a desire and need for quick, flexible and healthy meals (Figure 7).

NEW TECHNOLOGY

The way in which people shop has fundamentally changed; the way we shop for as well as receive our products is entirely different to what it was 10 years ago. Technology continues to be an enabler in retail meaning, new forms of shopping and receiving goods will

Figure 7: Oh Angie by Rewe

Source: Kantar Consulting database

Figure 8: Top 10 Cities Youthful Cities Index

Source: www.youthfulcities.com

Figure 9: Mobile Payment Edeka

Source: Lebensmittelzeitung.net

continue to emerge as Retailers embrace technology.

Berlin is one of the world's most appealing cities for young people globally. Data from The YouthfulCities 2014 Index analyzed some of the largest cities to find out which of them offers young people the best living conditions. With Berlin being ranked second, Berlin is very much seen as the testing ground for many innovations around technology in retail, especially those that cater to the younger shopper (Figure 8).

The majority of these innovations are aimed at making shopping trips easier and more convenient. This year saw the launch of the NFC mobile payment initiative in Berlin. The initiative has drawn support from Telefonica Germany, which runs the Base Wallet and Mpass services, as well as many retailers, namely Galeria Kaufhof, Kaiser's, Obi, Penny, Real and Rewe. The Initiative aims to promote payments via smartphone using NFC and more than 2,000 checkouts in 500 stores are now equipped with NFC technology and signposted with the 'zahl-einfach-mobil' (just pay with your mobile) logo. Shoppers who use the system are rewarded with EUR 10 credit on their digital payment cards (Figure 9).

Furthermore, Edeka, the largest grocer in Germany, launched mobile payment in over 100 stores in Berlin and since then this has been extended to more outlets, not only in Berlin but in the rest of the market.

Finally, Kaisers Tengelmann launched an instore navigation app in Berlin. Using the app, "Kaiser's Shoppingbegleiter" shoppers can navigate the store and locate products on their shopping list with ease. As retail in Germany heads towards 2020, retailers will continue to embrace and trial new technology as they look to bring omni-channel to the forefront of their shopper strategies.

HYPERMARKETS

The hypermarket channel is much less concentrated than the supermarket channel, as sales are more evenly distributed among a larger number of retailers. The largest hypermarket banner is Kaufland (Schwarz Group), ahead of Real (Metro Group). The rather substantial lead of Kaufland over Real is mainly due to the fact that Kaufland is a national chain, whereas Real maintains a clear geographical focus on the western parts of Germany. The Edeka hypermarket chain follows in third place, while Rewe's Toom banner, which has now been rebranded as Rewe Centre, ranks fifth.

However, the conversion has yet to reap the desired results as the outlets are now losing sales. The conversion has seen the assortment changing to introduce more private labels and reduce secondary placements and its non-food offering. Despite Kantar Consulting's definition of hypermarkets as "large-format stores that include a full selection of grocery items and general merchandise," the share of non-food goods among the total assortment has traditionally been much lower in German hypermarkets than in other European countries. For example, market leader Kaufland only generates around 25% of its sales through non-food. For Real (29.6%) this figures is not much higher, while Edeka hypermarkets do not even make 12% of their sales with non-food products. One of the best-selling non-food categories in German hypermarkets is sporting goods, whereas consumer-electronics products sell relatively slowly, as shoppers generally put more trust into category specialists, such as Metro's Media-Saturn banners.

CASH AND CARRY

The cash and carry channel has slowed significantly in recent years, as many traditional customers of cash and carry retailers (such as gastronomy businesses) have been negatively affected by consumers spending less money on eating out and focussing on eating in. Moreover, discounters have been putting a lot of pricing pressure on the cash and carry format, a channel already characterized by extremely low profit margins. As a result, the channel has been contracting, mainly due to losses suffered by market leader Metro. Other retailers have been

Figure 10: Hypermarket retailers (sales in EUR billion)

Retailer	Home Market	Sales EUR mill		Sales CAGR		Stores	
		2016E	2021E	'11-'16E	'16E-'21E	2016E	2021E
Kaufland	**Germany**	**€ 15,415**	**€ 17,612**	**4.4%**	**2.7%**	**669**	**719**
Real	Germany	7,557	7,437	-1.4%	-0.3%	285	265
Edeka	**Germany**	**7,200**	**7,286**	**1.1%**	**0.2%**	**524**	**534**
Globus	Germany	3,083	3,366	2.7%	1.8%	48	50
Hit	**Germany**	**1,499**	**1,424**	**0.7%**	**-1.0%**	**107**	**107**
Buenting	Germany	1,362	1,499	11.0%	1.9%	137	144
Bartels-Langness	**Germany**	**1,341**	**1,448**	**1.2%**	**1.6%**	**88**	**89**
Toom	Germany	1,256	1,328	0.0%	1.1%	56	56
Coop eG	**Germany**	**1,227**	**1,332**	**0.9%**	**1.6%**	**185**	**186**
Wasgau	Germany	270	284	-3.9%	1.0%	89	89
HypermarketsTotal		€ 40,211	€ 43,016	2.1%	1.4%	2,188	2,239

Source: Kantar Consulting database

Figure 11: Cash and carry retailers (sales in EUR billion)

Retailer	Home Market	Sales EUR mill				Sales CAGR		Stores	
		2016E		2021E		'11-'16E	'16E-'21E	2016E	2021E
Metro Cash & Carry	**Germany**	€	**4,031**	€	**3,672**	**-4.0%**	**-1.8%**	**106**	**106**
Selgros	Switzerland		2,803		2,912	-5.6%	0.8%	43	43
Edeka	**Germany**		**2,446**		**2,727**	**4.2%**	**2.2%**	**143**	**149**
Bela	Germany		226		245	1.1%	1.6%	4	4
Wasgau C+C	**Germany**		**97**		**103**	**0.7%**	**1.4%**	**7**	**7**
Supermarkets Total		€	9,602	€	9,658	-2.6%	0.1%	303	309

Source: Kantar Consulting database

treading water or have been growing very slowly.

A focus on quality and service and a continued focus on their core HORECA customers have helped Metro slow down sales decline. However, Kantar Consulting expects that the cash and carry channel will continue to grow its online share and is likely to maintain its current share in the German retail market.

RETAILER PROFILES - TOP 5

EDEKA

Edeka has continued its market sovereignty and operates over 14,000 stores in Germany, operating a decentralized business model comprised of seven regions. Its acquisition of the 2,300-store Plus chain in 2009 from Tengelmann has now been fully integrated and has more than doubled its turnover in its Netto discount segment. Edeka is continuing to invest significantly in its aging store base.

50% of its turnover is derived from Edeka's franchised store model, which allows its members to have the autonomy to make their own decisions to cater for their local customer base. The two largest company-owned businesses are Netto and its hypermarket chains Marktkauf and E-Center. Edeka's cooperative structure allows it to focus on utilising its Alidis buying group membership to drive down prices across the group.

Edeka is also planning on increasing the number of convenience stores it has under banners (such as Nah & Gut and Spar Express). It also operates a Cash & Carry business which has remained number 2 behind Metro for many years.

REWE

Rewe operates over 8,500 stores in Germany as well as stores in 13 other European countries. Its broad store portfolio gives Rewe access to a large pool of potential shopper groups. Rewe's supermarkets are broadly similar to the Edeka brand and have positioned themselves on attributes of freshness and quality. A change to the logo with a strapline "Besser Leben" (Live Better) emphasises Rewe's approach to health and freshness.

Rewe has been working very hard to improve its price perception and focussed on building its value Ja! range to over 500 products. Rewe is slightly more promotion-led than Edeka and in recent years has expanded its new proximity store formats to appeal to more affluent shoppers in urban locations: Rewe City (500–1,000 square meters) and Nahkauf (150–500 square meter stores that focus on fresh and convenient food). Rewe has invested heavily in refurbishing all of its Penny discounter stores to make a more proximity-led offer to help them compete on a better footing versus Aldi, Lidl, and Netto.

SCHWARZ GROUP

The Schwarz Group has been characterized by rapid expansion, extending its business to more than 25 European countries over a relatively short period of time. In Germany, the group's sales come almost exclusively from two banners, Lidl and Kaufland, which operate entirely independently of each other, each with its own board and decision-making structures. While Lidl can be easily categorized as a discounter, Kaufland succeeded in introducing a completely new format to the retail world—the compact hypermarket, which is smaller and has a slightly higher percentage of food space than a traditional hypermarket. The Schwarz Group operates just over 3,000 Lidl outlets and around 600 Kaufland stores in Germany.

Lidl having already launched and expanded its online store in Germany, the new battleground for Discounters looks set to be the deeper exploration of eCommerce in 2016/2017. As Discounters generate their cost advantages in-store, through pallet retailing and an efficient model throughout the supply chain, e-commerce has generally been a no go zone for discounters. Additionally, fears of cannibalizing store sales have put Aldi off the idea in Germany. Whilst majority of its sales online come from Non-food items, Lidl has increasingly added grocery items including HBC and household items, alongside other grocery items such as wines, coffees and pet food.

Lidl has been trying to strengthen the quality appeal of the brand by adding more fresh foods and national brands to its private-label-dominated assortment. While, in the past, promotions focused mainly on non-food items and key food specials, Lidl now runs weekly promotions of brands. Lidl's goal for this strategy is to drive more affluent shoppers into stores and steal bulk shopping trips from traditional supermarkets. Ultimately, Lidl aims to position itself as a "discount supermarket" that offers a selection wide enough for weekly shopping trips.

As new store growth for Lidl has slowed as it reaches saturation, store extensions and proximity stores have started to grow in Germany. Lidl like its competitors has also started to introduce smaller convenience stores in high footfall urban locations like train stations.

METRO GROUP

The Metro Group is one of the largest retail businesses in the world, operating in 30 countries in Europe and Asia. The three core areas of the business are the consumer electronics retailer Media-Saturn, the hypermarket banner Real, and the cash & carry chain Metro.

However, the Real hypermarkets division has been underperforming for many years. As a result, over 70 stores have been closed in recent years, and its international stores have all been divested. Metro has embarked on refurbishing over 30 stores with a new modern format that has seen sales increase by 5% in the new stores.

The Real brand continues to focus on choice and quality. Real has also relaunched its own-label offering which it has novelly called 'No-Name' and extended to over 200 products since its launch. Real currently stocks around 3,100 own-label products, which account for roughly 17% of sales. Real's mid-term goal is to increase this share to 25%. Real is one of the main members of the German loyalty card programme Payback, alongside Rewe who joined this year.

Nevertheless, for the moment, Real remains the biggest contributor to Metro's German revenue, generating around EUR7.5 billion in sales. The Metro cash & carry chain had sales of EUR4 billion last year. They are going through a restructuring programme with spin-off of food distribution (food service, cash & carry and hypermarket) and consumer electronics next year.

Metro has gone back to its roots and will now focus on its core shopper groups in the HORECA (Hotels Restaurants & Caterers) as well as independent retailers. As a result their non-food SKUs (apparel and sporting equipment) have almost completely disappeared from stores, while the stock of office supplies and cleaning products has been shifted online. A focus on fresh produce and counters with an emphasis on quality has also been introduced.

A focus upon Metro's six core private label brands has made it easier for its customers to navigate its stores. Metro currently derives over 15% of its sales from private-label products. The long-term goal is to grow this figure to 25%. Online ordering has grown significantly for Metro as new smaller Junior stores and specialized Gastro stores reduce the need for large stores in urban locations.

ALDI

"Aldi" is comprised of two companies operating independently of each other, Aldi Nord and Aldi Süd. The two companies have a clear agreement not to compete against each other within Germany. A similar understanding exists at the international level: whereas Aldi Nord has expanded into the Iberian peninsula, France, Benelux, Denmark, and Poland, Aldi Süd operates in the United Kingdom and Ireland, Central Europe, Greece, the United States, and Australia. In Germany, Aldi Nord operates more stores but Aldi Süd generates a higher turnover (EUR15.7 billion compared with EUR12.2 billion). After growing their store networks at a breakneck speed for a long time, both Aldi Nord and Aldi Süd have slowed down store expansion considerably in recent years. The right location is now the primary driver of new stores. Aldi Süd even opened a new store on the most expensive street in Düsseldorf, the Königsallee.

Aldi Nord undertook a complete overhaul of its store network in 2011. These store refurbishments, as well as the introduction of key brands, continues to pay dividends. Most of its regions in Germany have reported significant growth in same store sales. However, in the age of Store of the Future, Aldi has to upgrade its store network again, refocusing on boosting its fresh offer

Both Aldi Nord and Aldi Süd follow a hard-discounter retail strategy, which revolves around low prices in order to drive volume. However, in recent years Aldi like its rival Lidl has shifted its marketing strategy to include an emphasis on the quality of its private-label offering. Moreover, similar to Lidl, Aldi introduced fresh foods and national brands to its assortment; albeit at a much lower concentration than Lidl (private label products still make up around 90% of Aldi's assortment).

Extending space for its fresh offer continues to be on Aldi's agenda as Aldi Nord is extending its offer of fresh fruit and vegetables from 50 to 70 SKUs, compared with approximately 90 at Aldi Süd and 120 at Lidl. Aldi Nord has also created promotion areas to highlight selected fresh foods on two days of the week - Friday and Saturday.

Despite strengthening the quality of the brand in recent years, Aldi remains the price reference point in the German grocery retail market—both for discounters and supermarkets. This was recently reinforced by it starting another price war with Edeka, Lidl, and Rewe in the past few months on core staples like butter, milk, and meat.

CONCLUSIONS

After many years of less than interesting retail developments, Germany is beginning to become a retail market that will surprise in three ways:

- **Discounter Innovation**
  Discounters will evolve their offers, adapting their three pillars of success to a more modern multichannel shopper that demands a wider range of services.
- **Supermarket Reinvention**
  Edeka and Rewe are injecting some much-needed energy into the supermarket channel, creating new concepts, food-on-the-go solutions, and overall better consumer touchpoints.
- **New Channels**
  eCommerce, convenience, and other channels continue to grow robustly in the German market. The urbanization of retail is underway.

The skills and capabilities that Kantar Consulting sees growing in importance all relate to managing channel blurring, differentiating consumer touchpoints, and managing multichannel in profitable ways. As a result, eight areas of retail excellence will begin to emerge in Germany. This will shape new thinking from retailers in Germany, particularly among the big 5 large chains.

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8 AREAS OF EXCELLENCE - WHAT RETAILERS WILL NEED TO DO BY 2020

1. ROA. Managing Return on Asset Shifts by Channel: Assets such as property, software, and equipment no longer have a 10 or 15-year lifecycle. Changes are coming faster. German retailers will need to invest less in real estate, more in software, and invest in modular solutions where store reinvention decisions can be done at lower costs and faster implementation with less consumer disruption.
2. Assortment Optimization. Retailers need to increasingly manage assortment at a store level to accommodate immigrant populations, elderly/ageing shopper needs, and local festivals and tourism. Managing assortment by the week or the day will become a critical skill, especially when competing against discounters that change store assortments three times per week.

3. Loyalty in a Social Media World. E-Wallets, e-communication, and multiple delivery options will dominate the marketing efforts of major retailers.
4. Services. Retailers will need to get much better at non-retail services. Yes, the butcher needs to be good, but the banker, the insurance agent, and the healthcare and nutritionist also need to be good.
5. Local Supply Chain. Consumers are demanding local and seasonal. Localized assortment and local fresh food supply chain will grow in importance.
6. Multichannel delivery options for consumers. eCommerce is not about providing new ways to discover products. It is about providing a variety of options for the consumer to reserve, pay for and receive the product. Grocers will need to get more flexible about allowing a wide range of options for consumers.
7. Margin Management. Retailers will need to move away from old thinking around category planning and margins and find more flexible arrangements where personalized pricing and loyalty are built into promotional pricing.
8. Staff Reinvention. Older consumers want to be serviced by older staff. Younger shoppers demand digital communication. Retailers will need to reinvent their staffing models to hire more women in management, more elderly in consumer services, and more minorities in promotional and category design.

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

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