

DEFENDING  
SUPERMARKET SHARE  
WHEN **LIDL**  
COMES TO TOWN

**CATALINA**<sup>®</sup>  
PRECISION THAT POWERS PERFORMANCE



## CATALINA MEASURES THE IMPACT OF **LIDL** OPENINGS ON EXISTING RETAILERS

In today's highly challenging, uber-competitive retail environment, attention must be paid when a successful, global discount supermarket chain like Lidl comes to town.

In 2017 alone, Lidl opened 47 stores in several mid-Atlantic states as part of a promised major U.S. expansion.

Through a detailed analysis of its proprietary Shopper Intelligence, Catalina examined how these initial store openings affected shoppers, nearby supermarkets, and the brands they sell.

Importantly, Catalina wanted to advise retailers on what they can do to defend market share and profitability in the face of this new and formidable competitor.

○ **THE KEY TAKEAWAY:** *Don't be afraid. Be prepared.*

Catalina's study is the most in-depth research released on the impact of US Lidl store openings on competing supermarkets

Catalina's new study represents the most in-depth, purchase-based research released to date on the effect Lidl store openings have had on competing supermarkets in the U.S.. These insights provide important intelligence for incumbent retailers seeking to protect their market share when Lidl comes to town. (See conclusions below.)

The study demonstrates the power of shopper data to help retailers understand—and respond—to both competitive threats and changing shopper behavior. It also highlights the power of well-recognized brands in helping stores compete effectively with new retail models, including Lidl, that emphasize private labels over name brands.

## CATALINA FINDINGS

Using actual shopper purchase data, Catalina looked at the impact on 83 supermarkets located within three miles of 30 new Lidl stores. The study examined the impact on sales, number of shopping trips and lost shoppers during the first 16 weeks of a Lidl opening. It also examined the effect on different product categories and store departments, as well as which shopper groups accounted for higher and lower levels of decline. (See study parameters below.)

Fortunately, for incumbent supermarkets the impact was less pronounced later in the study period than might have been expected.

### IMPACT OF LIDL OPENINGS OVER FIRST 16 WEEKS



↓ **4.3%** Sales Loss



↓ **3.6%** Trip Loss

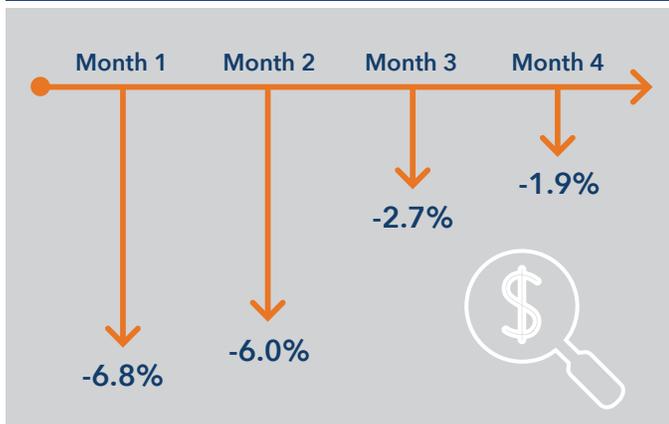


↓ **5.0%** Shopper Loss

Lidl's impact on other stores declined dramatically two months after a store opening

While Lidl had a significant effect on competing supermarkets during the first two months after its openings, that impact declined precipitously by the third month as many trial Lidl shoppers returned to their past shopping behavior. For nearby incumbent stores, average sales were down almost 7 percent during the first month. However, by the fourth month, sales were down less than 2 percent compared to what they were prior to a Lidl opening.

### THE DECLINING SALES IMPACT OF LIDL OPENINGS



The sales impact of Lidl significantly declined during the second half of the study period.

### DEPARTMENT-LEVEL INSIGHTS

Among other characteristics, Lidl stores are known for low prices, quality produce, meats and bakery, a focus on carrying store-branded shelf stable products, and minimal representation of national brands. Shoppers reacted with varying levels of enthusiasm to these categories.

Just three departments—produce, beer and wine—accounted for 60 percent of total lost sales. The huge impact on these departments was impressive, given that they account for just 16 percent of average sales in grocery stores. Meanwhile, the Center Store was impacted far less.

Produce, beer and wine had a huge effect on overall sales declines. The center store was far less impacted.

Shelf stable and general merchandise, which make up 40 percent of average store sales, accounted for only 7 percent of the overall sales loss.

### PRIVATE LABEL INSIGHTS

The study also found that name brand products at competing grocers delivered a significant competitive advantage against Lidl's heavy emphasis on private label. In fact, the percentage of sales declines among name brands was roughly 3.4 times less than for private label products at competing grocery stores. Given the overall high margins in private brands, the implication is that margin losses were greater than sales losses.

### INCUMBENT STORE IMPACTS



- **60%** of the Lidl Impact was driven by Produce and Beer & Wine. These departments only account for 16% store sales.
- Seafood, Meat, Deli, Frozen, Bakery and Tobacco accounted for **33%** of the sales decline.
- Shelf Stable Grocery+General Merchandise only drove **7%** of the impact, although they account for 40% of store sales.

*Dairy and Health & Beauty were not impacted by Lidl during the study period, possibly driven by competitive promotions, limited choices from Lidl, and high loyalty toward HBC name brands.*

DETAILED DEPARTMENTAL LEVEL INSIGHTS

Department	Sales Share	Sales Loss or Gain (MM)	Loss Share	Fair Share Index
Produce	9.0%	\$ (4.12)	33%	364
Beer & Wine	6.8%	\$ (3.38)	27%	396
Seafood	1.5%	\$ (0.54)	4%	285
Tobacco	1.7%	\$ (0.40)	3%	187
Meat	12.9%	\$ (2.08)	17%	129
Frozen	7.8%	\$ (1.26)	10%	128
Deli	4.3%	\$ (0.54)	4%	101
Bakery	2.0%	\$ (0.22)	2%	90
Grocery + GM	42.7%	\$ (0.89)	7%	17
Dairy	8.3%	\$ 0.39		
HBC	3.0%	\$ 0.52		
<b>TOTAL</b>		<b>\$ (12.52)</b>		

FRESH AND LOW PRICE IN PRODUCE, MEAT AND SEAFOOD ATTRACTS SHOPPERS TO LIDL STORES

CENTER STORE IS **NOT** A BIG DRIVER OF LIDL IMPACT



STUDY HIGHLIGHTS

- On average, stores suffered a sales decline of 4.3 percent during the 16-week period.
- Shopping trips fell 3.6 percent, and customer counts declined 5.0 percent.
- However, sales declines improved every month after the Lidl opening, falling from a loss of 6.8 percent in month one to just 1.9 percent in month four.
- Produce, beer & wine accounted for the largest cumulative sales decline, 60 percent of the total drop.
- Seafood, meat, deli, frozen, bakery and tobacco accounted for another 33 percent.
- Shelf-stable grocery and general merchandise accounted for just 7 percent, with retailers' private label brands declining far more than national brands.
- Existing shoppers—those who continued to shop at their regular store, but bought less, accounted for nearly three-quarters of the loss.
- Lost shoppers, those who completely defected at rates greater than expected, accounted for 22 percent of the loss.



## IMPACT BY SHOPPER TYPES AND DEMOGRAPHICS

The study also looked at Lidl's effect across heavy, medium and light shoppers at existing grocery stores, as well as the impact on various demographic groupings, including ethnicity, age, income and family size.

Not surprisingly, heavy buyers accounted for much of the impact on existing stores. Among those impacts:

- Heavy buyers who split their loyalty and spent less with incumbent supermarkets accounted for 59 percent of the total sales decline. Split loyalty among medium buyers accounted for 10 percent of the decline.
- Heavy buyers who completely defected from their incumbent supermarkets accounted for 12 percent of the total decline. Medium buyer defections accounted for 10 percent.



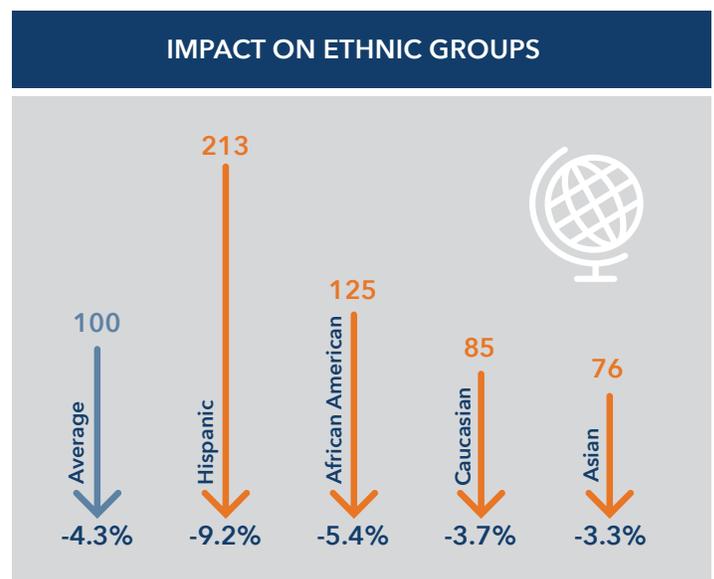
Existing buyers who continued to shop at their old stores but bought less accounted for 74% of sales losses. Lost buyers who defected from their old stores accounted for 22%.

Heavy buyers, Hispanics and larger households all had an impact on sales losses for incumbent supermarkets.

### Demographic insights showed the following:

- Sales declines among Hispanic shoppers were more than twice as high as average. African American shoppers also showed above average declines. Meanwhile, Caucasians and Asian Americans were less impacted than average.
- Younger adults accounted for slightly higher sales losses than average, while seniors 65 and older showed a significantly lower impact.
- Households with children accounted for higher losses than households without. Larger households with five or more people accounted for almost 25 percent greater losses than households with four or fewer people.

Income was not a factor, as sales declines were evenly spread across seven different income groups. Lidl has positioned itself to appeal to both high- and low-income shoppers with its discount pricing structure and product assortment, which includes healthy, premium and organic products.



Hispanic households showed the heaviest declines.

# LIDL IMPACT

## IMPACT BY AGE GROUP



Younger adults showed slightly higher sales losses than average, while seniors 65+ showed significantly lower impact than all households.

## IMPACT BY HOUSEHOLD SIZE



Household sales losses were significantly higher for the 5+ person families which showed 25%+ greater losses versus all shoppers

## CONCLUSION: COMPETING WITH LIDL

While the impact of Lidl's initial openings was less disruptive than expected, this highly successful retailer is sure to learn from its early experiences in the US market and make adjustments as it continues its US expansion. Incumbent supermarkets can and should prepare themselves to offset potential losses and business disruption. Forewarned is forearmed.

Retailers should work with their manufacturer partners using name brand promotions and shopper marketing strategies.

Before an opening, retailers should anticipate where in their store and with which shoppers Lidl will have the strongest sales impact. They should budget and plan for the necessary promotions to reduce those losses.

- Real-time shopper intelligence and personalized promotions will be critical to defending share. Retailers should continually monitor the impact on shopper and demographic groups and store departments and adjust their strategies and promotional activity accordingly.
- Retailers can also anticipate which shoppers will be most important to protecting share. Targeting heavy buyers, Hispanics, younger shoppers and larger families with personalized pricing and promotional strategies will help blunt the impact on these groups.
- Name brand products held up well against Lidl's private label offerings, and represent a significant competitive advantage for other supermarkets. Retailers should work with their manufacturer partners on an ongoing basis, leveraging name brand promotions and shopper marketing strategies to leverage that edge.
- Big losses experienced in produce, beer and wine suggest that special promotions in these departments would be a potent defensive strategy.



Net, when turf needs protecting, do a deep dive into shopper data analytics, then develop targeted and highly personalized promotions and advertising. Don't lament about constantly changing trends, preferences and competitive offerings; Act. Use all available resources to reach the right shoppers with the right promotions and messages, and do so in the right place at the right time.

## STRATEGIC DIRECTION FOR COMPETING WITH LIDL

Pre-Opening	Post-Opening: 6 Months	Long Term
<p><b>Anticipate</b> your loss by leveraging Catalina Lidl Study</p> <p><b>Budget</b> for competitive blunting</p>	<p><b>Quantify</b> the actual loss and sustained long term loss</p>	<p><b>Focus</b> on top priorities by using analytical insights</p>

Monitor your key shopping behavior trends.  
Prioritize your Customer Segments, Departments and Products.

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|---|---|--|
| <ul style="list-style-type: none"> <li>○ Plan and execute preemptive promotions to "win" local market share from competitors</li> <li>○ Utilize Catalina Lidl Study insights and actual retailer data to develop appropriate:               <ul style="list-style-type: none"> <li>● Personalized pricing</li> <li>● Targeted promotions</li> <li>● Products for price adjustment</li> <li>● Promotional mix</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>○ Leverage real-time insights to:               <ul style="list-style-type: none"> <li>● Optimize the current plan by identifying new at-risk customer segments and products</li> <li>● Develop additional programs if needed</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>○ Utilize manufacturer relationships to support longer term sales trends by leveraging high penetration, high volume, high frequency national brand mass and targeted promotions</li> </ul> |
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## STUDY PARAMETERS

Catalina looked at the impact of 30 Lidl store openings in 2017 on 83 existing supermarkets representing eight different retail chains in three states: Virginia, North Carolina and South Carolina. The supermarkets studied are all within three miles of one of the new Lidl stores.

Catalina examined sales and shopper behavior in those stores during a 16-week period immediately before the Lidl openings. Using a Time Series Regression Forecast Model, the study then compared expected sales at those stores had there been no Lidl opening with actual sales during the 16 weeks following the openings.

All the forecasts were done at store department level with 95% confidence interval.

Stores included in the study are part of Catalina's network of some 25,000 stores nationwide, which provides Catalina a window into the ongoing store-level and UPC-level purchasing behavior of shoppers coast to coast. This proprietary intelligence helps retailers and CPG brands target and reach shoppers with personalized advertising and promotions via online, mobile and in-store media channels based on individual buying patterns and preferences. The result: highly efficient incremental growth, trial and repeat purchasing.

## ABOUT CATALINA

Catalina's personalized digital media drives loyalty and measurable sales outcomes for the world's leading CPG retailers and brands. The company has long had the richest real-time shopper behavior intelligence on the planet with a database dating back 35+ years of every UPC scanned in store. Catalina also has the broadest reach of any shopper-targeted media. Catalina is based in St. Petersburg, FL, with operations in the United States, Europe and Japan. To learn more, please visit [www.Catalina.com](http://www.Catalina.com) or follow us on Twitter @Catalina.

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