

## GROCERY

The big grocers are responding to the threat posed by Aldi and Lidl. **Luke Tugby** assess what the future holds for the discount duo in the UK

# Aldi and Lidl: How far will they grow?

**D**iscounters Aldi and Lidl have sent shockwaves through UK grocery over the past five years, causing seismic shifts in the market and severe repercussions for the big four.

But recent data shows the German duo's growth is starting to plateau and grocery chiefs have apparently split into two camps when assessing what the future holds for the market.

In the red corner is Iceland founder Malcolm Walker, who believes the bargain-hunting culture developed by grocery shoppers is here to stay "forever" – a trait that will allow the discounters to grow even further.

In the orange corner is Sainsbury's boss Mike Coupe. He thinks consumers will start to trade up with the supermarkets they shop at in the next 12 months, as the big four take advantage of Britain's emergence from economic turmoil and win back custom from the discounters.

Analysts believe the truth lies somewhere between the two views.

"Discounters aren't going away," Shore Capital analyst Clive Black maintains. "Even if the superstores hadn't fallen over in the last five years, they wouldn't have gone away."

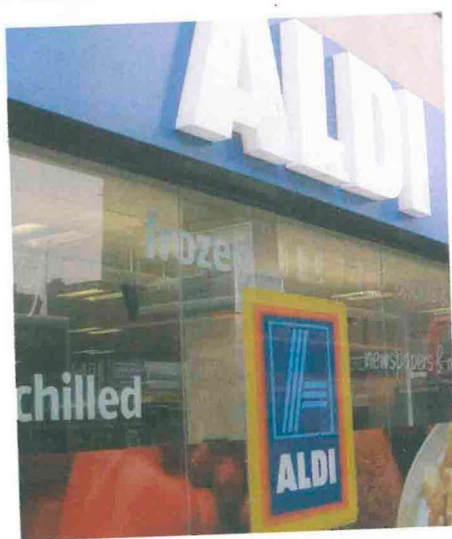
"Aldi and Lidl have been in the UK for nearly 20 years but in the last three they have been presented with a free lunch by the majors, which they have seized with open arms."

"That free lunch has come to an end now. The structural narrowing of the price differential on fresh food and chilled food in particular by the big grocers will eat into the point of difference that the discounters have had and a partial normalisation in consumer shopping behaviour will take place."

"At the same time, the discounters will continue to open stores and the majors won't, so you would expect the discounters to gain market share. But they aren't going to be the be-all and end-all for shoppers like they have been over the past two or three years."

Planet Retail analyst David Gray also believes there remains room for discounter expansion.

He says: "The discount sector is still enjoying strong, double-digit growth, but it is slowing down. That would suggest that some of the measures that have been taken by the mainstream supermarkets are starting to work, particularly some of the price investment and



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**Matthew Hopkinson,  
Local Data Company**

the shift towards everyday low prices away from multi-buy offers.

"That doesn't reduce the period of very, very strong growth we have seen from the discounters over the past four or five years. What they have gained in terms of market share they are going to keep and they will probably take a bit more of the market."

## Market share limit

Gray and Black agree that 15% of the market is the "upper ceiling" Aldi and Lidl could reach between them.

At present Aldi leads the way, with 5.4% of the UK grocery market according to the most recent Kantar Worldpanel data. Lidl has 3.9%. That gives them a combined share of 9.3%.

But to reach that 15% figure by the end of the

decade the German duo will have to open dozens of stores. The question is, where in the UK can they expand?

Local Data Company director Matthew Hopkinson believes plenty of sites will be available on the fringes of Greater London and in "more remote locations" for Aldi and Lidl to add to their 574 and 605 stores respectively.

"Aldi has got a lot of the population centres pretty well covered now, which is interesting," Hopkinson explains.

"If you were to look at them on a map, they are literally everywhere already. They have got 21 in and around Manchester for example, 14 in and around Birmingham."

"Lidl has more stores, but they tend to be in more remote locations such as Stranraer and Fort William. Aldi has a heavy presence in the Northwest, with 119 stores, but Lidl only has 54 there, so there is clear room to grow."

"There's an interesting dynamic between Aldi and Lidl. They are often talked about in the same breath, but they seem to have different strategies in terms of where they open and the sort of sites they look at."

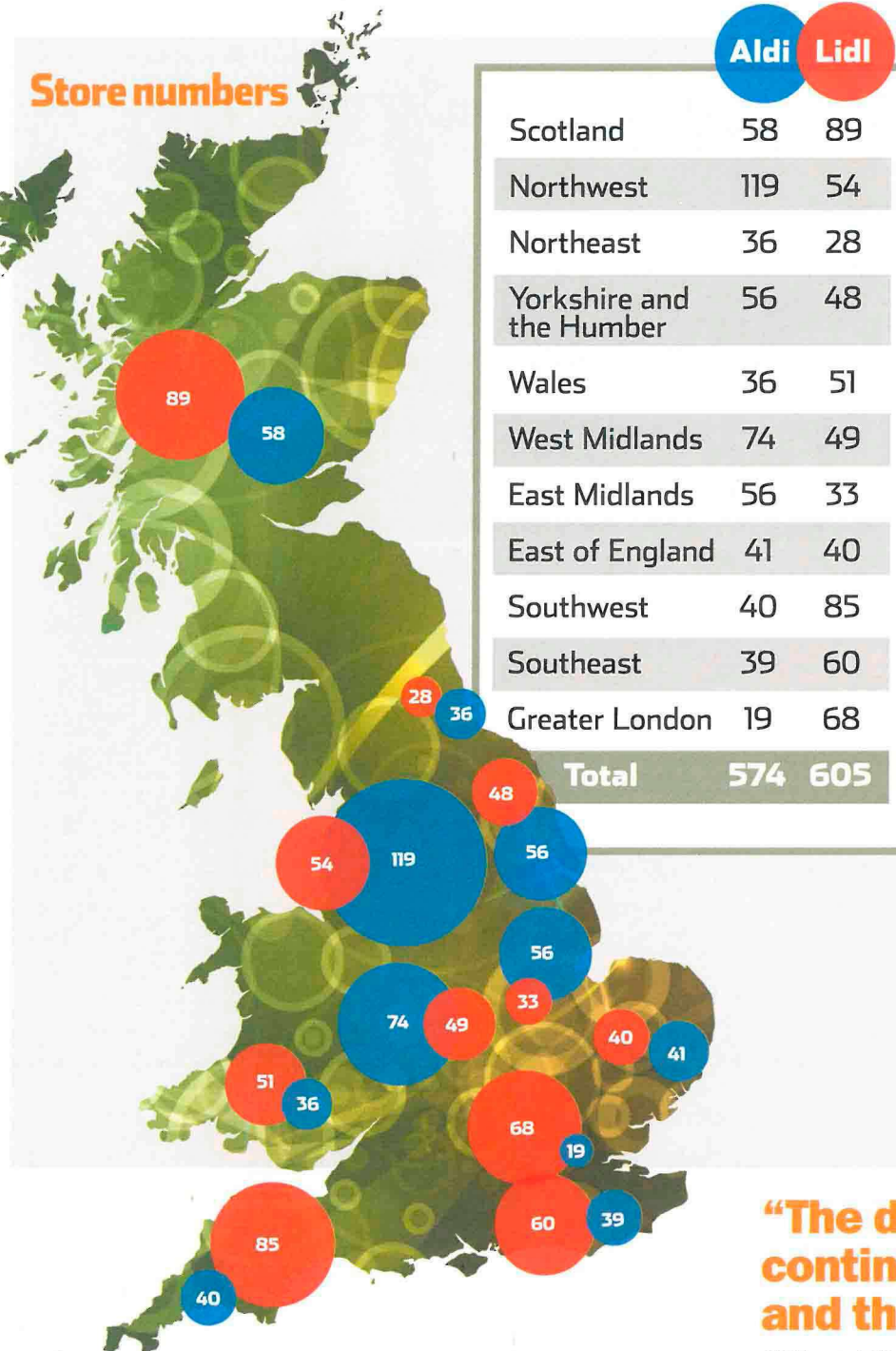
"It's not about saying 'let's go to the poorer areas'. They could both move into the fringes of London where there is a big population, but finding the sites at the right cost is difficult. In more remote locations where they can go



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## Store numbers



## How Aldi stole a march on Lidl in the UK

Lidl may have more stores than Aldi in the UK, but it is the latter that has pulled ahead in recent years.

Aldi's share of UK grocery now stands at 5.4%, making it the sixth biggest food retailer in the UK, ahead of Waitrose on 5.2% and Lidl on 3.9%.

Data from *Retail Week* analysts revealed that Aldi's sales densities had also pulled clear of its German counterpart – £1,075 per sq ft in 2014/15 versus £770.

Shore Capital analyst Clive Black believes the secret to Aldi's success is in its timing.

He said: "Aldi had a marketing message that particularly resonated at the time of economic necessity with its cheekiness, its shoppers' champion and underdog nature that really struck a chord.

"It got a lead on Lidl off the back of that, which means it's roughly growing at twice the momentum on a like-for-like basis. Aldi's had greater sales densities and traction ever since."

Planet Retail analyst David Gray said there have been other factors too: "Aldi has been much more selective in where it opens its stores. It hasn't got the number of high street locations Lidl has, but it's meant it's kept costs down and can buy lower-cost freehold sites rather than a leasehold high street site.

"Aldi and Lidl are putting effort into making their stores more like mainstream supermarkets, but Aldi perhaps has done this to a greater extent. It's brought in more branded products, carried out a lot of refurbishments and brought in fresh bakeries.

"Those sorts of things have got it more customers and broadened its appeal."

## "The discounters will continue to open stores and the majors won't"

**Clive Black, Shore Capital**

head-to-head with a supermarket and get a site at a reasonable cost, in places like Lincoln for example, there is definitely an opportunity."

He says that there will be fewer sites in these sorts of locations than before, but that there is still enough edge-of-town brownfield available and councils like retailers because they bring in business rates and create jobs.

### Cannibalisation

However, Hopkinson warns that Aldi's ambitious expansion strategy to reach the 1,000-store mark in the UK by 2022 would lead to cannibalisation of its own trade. He also

thinks the discounters will not reach the store numbers and market share heights they have in other Western European countries.

"Whatever happens, there is already an over-supply of food retailing, whether you are getting your groceries from a food discounter, another discounter who sells things like fizzy drinks, crisps and confectionery or the convenience store formats," he says.

"One thing that plays into the hands of the discounters is that the big four have convenience formats cannibalising their own supermarket offers. Aldi and Lidl do not have that issue. However, the more they expand, the

more likely they are to eat into their trade.

"They aren't far off doing that at the moment because they have got such extensive coverage already. If they continue to go into big population centres where other supermarkets are, it's a much higher-risk strategy because they won't have the volumes they have established elsewhere and someone will take a hit."

Iceland boss Walker is adamant it "won't be us" who takes that hit, while Sainsbury's Coupe remains confident the supermarkets will ultimately win the day.

But if the discounters do scoop up 15% of the market by 2020, something will have to give.