

Press release

Untapped potential in Germany's discount segment

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GfK GeoMarketing continues to anticipate favorable market conditions for Germany's discount segment. A recent study by the company reveals significant untapped potential in this market.

Unhampered growth in non-food discount segment

The non-food discount segment continues to grow despite the fact that overall turnover levels for German retail have dropped by two percent. Particularly ailing retail forms include department stores, large hypermarkets and weakly positioned supermarkets.

The areas of untapped potential in the discounted non-food sector offer further opportunities for growth. "Drivers of growth in this segment include the current declines in inflation-adjusted income, job security concerns and German consumers' increasing rate of saving," explains GfK retail expert Manuel Jahn, who is head of GfK GeoMarketing's investors and financiers division. "However, it's anticipated that the turnover growth curve for discount chains will begin to flatten over the mid- to long-term as a result of socio-demographic factors – most notably, the aging of the population. These factors will drive the country's service-oriented and individualized retail offerings in years to come. Despite the current growth, the market doesn't forgive management mistakes, as seen in the cases of Plus, Woolworth, Avanti and M&C Geiz."

Level of coverage offered by discounters varies widely by region

With around 16,000 shops, grocery discounters comprise a key feature of Germany's retail landscape. However, many active in this sector fear an end to the growth. GfK GeoMarketing evaluated its retail databank as well as information from retailers in order to provide an objective basis for expansion planning. The company calculated the average sales area provision of grocery discounters per 1,000 inhabitants at the level of Germany's districts. This analysis yielded a value of approximately 150 m² of sales area per 1,000 inhabitants. However, the pattern of distribution differs widely among the evaluated districts.

Eastern Germany enjoys a particularly high degree of coverage by discount merchants. This is a consequence both of the aggressive expansion of grocery discounters following the reunification of Germany and the low levels of population and purchasing power density that still characterize wide regions in eastern Germany.

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By contrast, there are coverage gaps in central and western Germany, with discount retail sales areas falling significantly below the average in some regions. Areas with particularly high as-of-yet unexploited potential include densely populated regions in the western federal states such as the Rhine-Ruhr region as well as Hamburg, Stuttgart and Munich. Grocery discounters also tend to be underrepresented in the federal state of Hesse.

"There is no entirely consistent correlation between the coverage density of grocery discounters and the population's income level," explains Jahn, who served as project manager for the study. "Rather, multiple factors are at play – such as the availability and prices of suitable properties as well as regional planning permission policies."

Success of store brands promises long-term market share

GfK GeoMarketing sees the further proliferation of store brands as a precondition for mid-term growth in the discount retail sector. Store brands also represent the traditional strength of discounters in Germany.

Store brands comprise an ever greater share of the product offerings of discount merchants in the clothing/textile, electronics and drugstore segments, and especially in the grocery store segment. Store-brand products are often supplied to discounters at significantly reduced prices by well-known manufacturers who produce them in large quantities and under different names. Thanks to these large quantities, discount merchants are able to influence product and pricing policies to their advantage.

The store brands owe their success primarily to the substantial savings (up to 50%) they offer consumers over brand-name products. Such opportunities to save hold strong sway over the notoriously frugal German consumers. The success of store-brand products can also be seen in the sometimes even greater level of satisfaction and confidence consumers have in these products compared to those of some brand manufacturers. This fact was recently demonstrated at the Amsterdam-based PLMA 2010, the international trade fair for brand-name products.

The trend in discount retail is, however, double-edged: While grocery discounters continue to be the most rapidly growing segment, the high degree of market penetration will begin to slow growth rates in the coming years. Another important factor is the significant regional disparity in the coverage provided by discount grocery merchants in Germany. This means that some areas still offer substantial development potential. Especially relevant in this regard are the densely populated areas in the western part of the country.

The development of a comprehensive branch network in the volume- and efficiency-dependent discount market remains a key factor in achieving success and also serves as a driver of expansion.

GfK GeoMarketing consequently expects smaller chains to be gradually taken over or at least controlled by larger ones. This process will be driven by the larger chains' desire to absorb the smaller chains into their existing structures and thereby offer further discounts made possible through their increased size. An example of this phenomenon in action is the takeover of Woolworth (approx. 160 branches) by KiK (approx. 3,000

branches) as well as the pending takeover of M&C Geiz (approx. 260 branches) by Tedi (approx. 1,000 branches).

Based on these factors, GfK GeoMarketing forecasts continued growth for shop-based discount retail in the non-food segment. The greatest success will come to the companies who effectively implement branch-network focused concepts.

"Germans' affection for discount merchants will continue," says Jahn. "Key factors here include customers' desire for good value for their money as well as easy accessibility and familiarity."

Additional information can be obtained from Cornelia Lichtner, GfK GeoMarketing, Public Relations: c.lichtner@gfk-geomarketing.com or +49 (0)7251 9295270.

About Manuel Jahn





Manuel Jahn heads the investors and financiers branch of GfK GeoMarketing's Real Estate Consulting division. He has been with GfK GeoMarketing since 2004 and has extensive knowledge of retail real estate as a result of preparing real estate object reports throughout Europe. He was previously employed by Westdeutsche ImmobilienBank.

Illustrations and photos

Print-quality illustrations and a photo of Manuel Jahn can be found at www.gfk-geomarketing.com/discounters

About GfK GeoMarketing

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-  Consultancy and reports
-  Market data
-  Digital maps
-  Geomarketing software RegioGraph

GfK GeoMarketing is one of the leading independent providers of consultancy services in the area of real estate and location research. The company produces studies and reports for customers from the retail, public authority, investment, banking and project development sectors.

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