GfK GeoMarketing

Press release

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GfK GeoMarketing study examines "location coupling" among Germany´s discount and supermarket grocery stores

A new study by GfK GeoMarketing examines current practices among Germany's grocery retailers. The agglomeration of businesses - so-called "location coupling" - remains a very popular practice. However, a countertrend toward free-standing retailers is emerging, particularly in large cities.

According to a recent study by GfK GeoMarketing, there are 5.6% more discount stores located in the immediate proximity of a supermarket in 2010 compared to 2008. The study is based on data on more than 20,000 grocery store chains throughout Germany acquired and validated by GfK GeoMarketing through the company's retail and real estate consultancy projects. The results of the study can be obtained from GfK GeoMarketing in the form of a white paper titled *"Coupled locations in Germany's grocery trade: An ongoing trend with an emerging countertrend"*.

On the whole, the trend of "location coupling" among discount stores and full product-line merchants in the stationary grocery trade continues. These coupled locations consist of at least one discount store and a full product-line merchant as well as the occasional drug-, clothing- or shoe store.

Discount stores: Strong push toward coupling
Aldi has the most coupled locations of all discount store merchants in Germany. 879 Aldi sites are coupled with another merchant, which amounts to around 21% of all Aldi locations. By contrast, only around 10% of Lidl's locations (276) are coupled.

Coupled locations among both Aldi and Lidl are increasing more quickly than free-standing locations. Aldi's branch locations expanded by around 0.5% between 2008 and 2010, while the number of coupled locations grew by around 2.8% during this same period. Lidl experienced growth of approximately 4.3% during this time, although it has significantly fewer locations than Aldi. The number of Lidl's coupled locations grew by 14%.

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Full product-line merchants seek out discount stores

Among the classic, full product-line merchants, the supermarket chains Edeka and Rewe are particularly fond of coupling locations. Both of these companies are characterized by small non-food sections and a limited number of retail brands. Aldi is traditionally more popular than Lidl as a neighboring location for supermarkets. The product overlap between a full product-line merchant and Aldi is significantly less due to the latter's fewer number of articles and positioning as a discount store. Even so, the number of coupled locations consisting of full product-line merchants and Lidl is on the increase. The reason for this is two-fold: Lidl locations are increasing more quickly than Aldi's, and in many instances a coupling with Lidl is viewed as better than no coupling at all, even given the larger overlap with the supermarket product offering.

The number of coupled locations among full product-line merchants is also growing faster than the total branch network. Edeka's branch network has grown by approximately 4.9% since 2008, while its share of coupled locations increased by around 8.9%. Rewe underwent a similar trend: Its branch network grew by around 11.9%, while its share of coupled locations jumped by approximately 16.5%.

Return to free-standing retailers in residential areas

GfK GeoMarketing has however discovered an emerging countertrend to the coupling tendency of which public authorities and real estate developers should take note.

"We're seeing the first signs in the grocery store sector of a renaissance of free-standing retailers in large cities and densely populated residential areas," explains GfK retail expert Dr. Eberhard Stegner, who is one of the authors of the white paper. These locations are situated in residential areas in the middle of large, densely populated cities. Rewe's City concept was a precursor of this development. Tengelmann also recently announced that it will be concentrating more on locations of this sort.

These locations function completely differently from the primarily automobile-oriented retailers on city peripheries; the catchment areas for these two location types are utterly distinct.

Coupled retailers tend to be situated in areas with few residences in the immediate vicinity. By contrast, free-standing retailers are typically located in the middle of densely populated residential areas. According to a random sampling analysis by GfK GeoMarketing, a residentially oriented market of this sort can be reached by between 690 and 3,150 inhabitants within a driving time of five to eight minutes. By contrast, only 50 to 460 inhabitants can reach retailers located on city peripheries within the same period of time.

"Residential locations are primarily frequented by customers who prefer walking to their shopping destinations," explains Stegner. "Catchment areas for residential-oriented locations face stark, often narrowly defined boundaries that are determined by the maximum acceptable walking distance. Such locations are characterized by - and indeed depend upon - a densely-populated catchment area with many inhabitants in the immediate vicinity. As such, these locations take on a high level of risk: Every additional competitor that sets up in the immediate neighborhood draws on the same catchment area, which, while heavily populated, is geographically small."

Coupled locations: Achieving a critical mass

It is only through the coupling effect - i.e., the agglomeration of multiple retailers - that many grocery store locations can achieve sufficient retail draw. This is particularly the case for automobile-oriented sites, regardless of whether they are located in rural areas or on city peripheries or at traffic intersections. As shown by GfK GeoMarketing's detailed geographic analyses, many free-standing retailers would have catchment areas that are too small and encompass too few inhabitants. The consequences would be weak turnover results and a high probability of competitors positioning themselves between the established store location and its customers. "While the distance between customers' places of residence and periphery-based retailers is usually only a short drive away, it can still be a potential barrier to drawing customers. Coupling with other retailers is thus a necessary symbiotic partnership."

Coupled locations as comparatively less risky ventures
Given the higher level of risk and demanding success parameters associated with free-standing retailers, Dr. Eberhard Stegner sees many advantages with regard to coupled locations: "It's often the case that project developers establish one particular retailer as a magnet tenant in order to attract another retailer. But expansion planners also happily choose discount stores as coupling partners in order to profit from the resulting increase in drawing power within the catchment area."

It's also important to note that coupled locations emerge not just due to the economic advantages they provide, but also due to the policies of public authorities or planning permission issues such as the availability of suitable plots.

Additional information on the study and the white paper *"Coupled locations in Germany's grocery trade: An ongoing trend with an emerging countertrend"* can be obtained from Cornelia Lichtner, GfK GeoMarketing,
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About Dr. Eberhard Stegner
Dr. Eberhard Stegner is managing director of GfK GeoMarketing and has been active in the area of location research at GfK since 1993. He previously held a chair in the department of statistics and empirical economic research at the Friedrich-Alexander-University of Erlangen-Nuremberg.

Print-quality illustrations can be found at
www.gfk-geomarketing.com/coupled_locations.

About GfK GeoMarketing
GfK GeoMarketing is one of the largest providers of geomarketing services in Europe for customers and users from all branches of trade. Key business areas include:

- 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.

GfK GeoMarketing is a subsidiary of the globally active GfK Group. Ranked fourth among the world's market research institutes, the GfK is represented by approximately 10,000 employees belonging to more than 115 subsidiaries located in 100 countries.