

# US SHOPPERS' APPETITE FOR DISCOUNTERS

ONE YEAR IN, SHOPPERS PLEASANTLY SURPRISED BY LIDL'S OFFER



Lidl's entry to the United States is a test of changing tastes of the American shopper. Will its offer of fresh food and private brands seduce consumers as it has in Europe? Or are American shoppers too attached to traditional brands, a vast range of products and their preferred grocer?

After one year, Lidl is succeeding in unexpected ways with US consumers, based on our research in 2017 and 2018. Consumers are shopping at Lidl more frequently. They are spending more there. And they are very satisfied, awarding the grocer an attractive Net Promoter Score (NPS). They particularly value Lidl's fresh food offering and private brand products.

Consumers are attracted to Lidl's products, commenting they appreciate both the high quality and low prices. This sentiment gives Lidl a two-fisted grip that strengthens its competitive position, making it harder for incumbent grocers to compete by investing in lower prices. Countering this, Lidl's original store location strategy missed the mark: American consumers still place great importance on convenient location, and lack of convenience registered as the most

common reason why shoppers would not continue shopping at its stores.

The initial success appears to signal a change in American shopping tastes. Lidl's assortment and fresh food have had a positive reception, indicating that US shoppers may place less importance on a broad selection than previously thought and instead appreciate a curated choice. Moreover, 90 percent of the products available at Lidl are private brand, breaking the myth that Americans are not interested in these and will only choose well-advertised national brands.

The results come from two rounds of surveys. We first talked to grocery shoppers before and a few months after Lidl opened its first US stores in June 2017. This feedback helped to build a base line of awareness and interest in Lidl and in hard discounting in general.

#### WHAT ARE THE TOP FOUR REASONS WHY US CUSTOMERS SHOP AT LIDL US? 18-34 YEAR OLDS VS. 35+ YEAR OLDS



Source: Oliver Wyman consumer survey 2018 (n = 211 US consumers that tried Lidl in the age group 18-34 year-olds) (n = 390 US consumers that tried Lidl in the age group 35+ year-olds)

Then, in April 2018, we re-engaged and surveyed grocery shoppers who had been to Lidl in the US with nearly a year to try it out. We surveyed more than 3,600 consumers in the states where Lidl operates stores: South Carolina, North Carolina, Virginia, Delaware, New Jersey, Georgia. Of these, 600 had shopped at Lidl, and we asked them about their experiences in detail.

Both sets of results indicated interest in Lidl across several dimensions. These included price and ease of shopping, which could be expected given Lidl's success in more than 20 countries in Europe. But they

also included fresh food and assortment, showing a shift in American consumer preference. Younger shoppers – aged 18 to 34 – had a particularly high awareness of Lidl and shopped there frequently: They consider themselves savvy shoppers, valuing quality products almost as much as low prices.

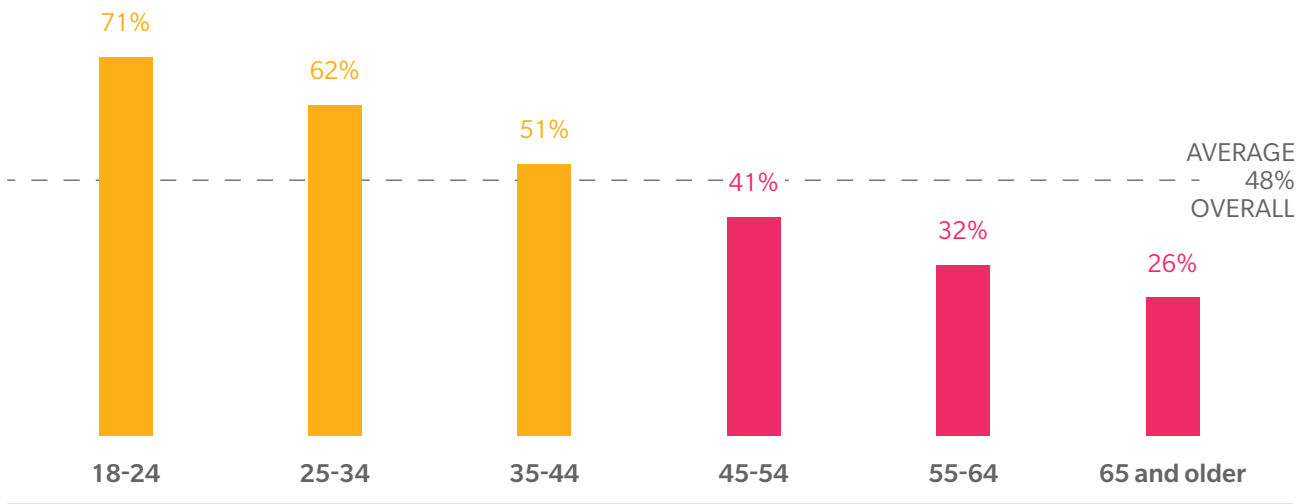
The survey follows other studies of US consumers by Oliver Wyman using different approaches – notably *Retail's Revolution* and our annual Customer Perception Map research. Below follow more details from the latest survey.

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## LIDL US IS WINNING OVER THE NEXT GENERATION OF CONSUMERS

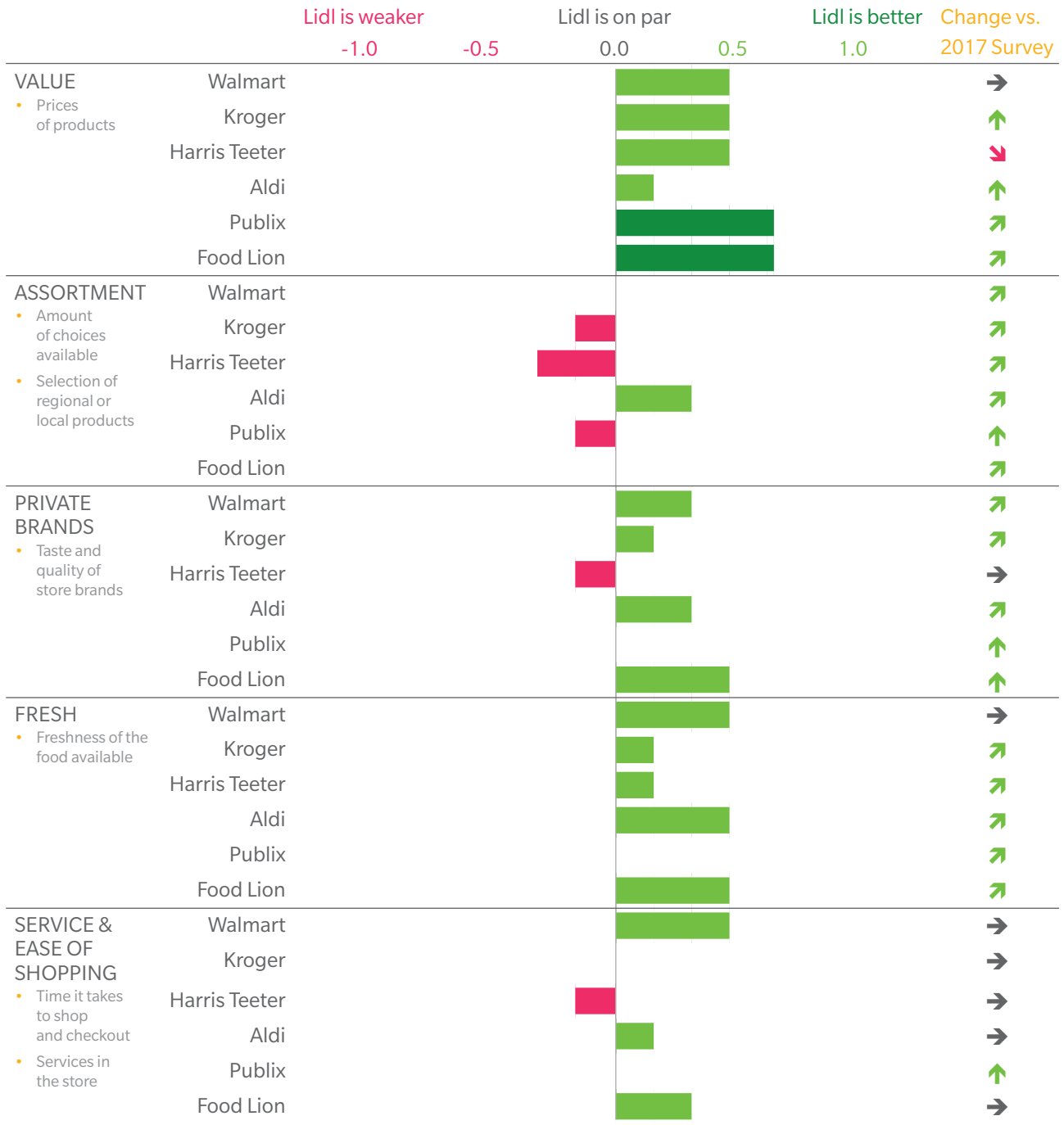
### PERCENT OF US CONSUMERS WHO SHOP MORE THAN TWICE PER MONTH AT LIDL BY AGE GROUP

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Source: Oliver Wyman consumer survey 2018 (n = 600 US consumers that tried Lidl)

## LIDL US INCREASINGLY BEATS INCUMBENT COMPETITORS IN SURPRISING DIMENSIONS



Source: Oliver Wyman consumer survey 2018 (n = 422 US consumers that tried Lidl and are loyal consumers at the incumbent grocers)

- ↑ Strong increase
- ↗ Moderate increase
- No meaningful change
- ↘ Moderate decrease

## LESSONS FROM US CONSUMERS' LIDL EXPERIENCE

Below are some of the results that stood out from the surveys of shoppers in 2017 and 2018.

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### 1 LIDL SHOPPERS ARE BECOMING INCREASINGLY LOYAL

Forty-eight percent of the 600 Lidl customers say they shop at Lidl two to three times or more per month on average. This is significant, given that the American consumer shops for groceries an average of 10.1 times per month, according to our annual survey of customer perception.

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### 2 LIDL IS WINNING OVER THE NEXT GENERATION OF CONSUMERS

Sixty-one percent of the younger age group of Lidl shoppers (under 45 years) visit a Lidl at least two to three times per month, compared to 34 percent of the older age group (45 years and above). The younger shoppers also buy larger baskets than the older age group: The baskets of 53 percent of the young exceeded \$50, compared to 34 percent for the older shoppers.

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### 3 CONSUMERS ARE CHOOSING LIDL FOR REASONS THAT TRADITIONAL SUPERMARKETS CLAIM AS STRENGTHS

Beyond the 39 percent of Lidl consumers who cite low prices as the reason they shop there, another 46 percent choose offer as the primary reason for visiting the grocer. These include good quality, good promotions, really fresh products, and good choice. Younger customers value quality products almost as much as low prices.

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### 4 LIDL INCREASINGLY BEATS INCUMBENT GROCERS IN SURPRISING DIMENSIONS

In the most recent survey, Lidl beats all other grocery retailers in value perception. Consumers also feel that Lidl's assortment is on par with those of national grocer Walmart and regional supermarket Food Lion. This is surprising given that the assortments at Walmart and Food Lion are, in reality, many times greater. Perceptions of Lidl in fresh food stand out as well: Lidl wins against every incumbent in this dimension.

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### 5 CUSTOMERS ARE SATISFIED OVERALL WITH LIDL'S OFFERINGS, ALTHOUGH SOME MISS CERTAIN BRANDS

Customer satisfaction is surprisingly high in categories not normally associated with hard discounters. For example, more than half of consumers are highly satisfied with Lidl's wine – both the selection and the value – as well as with its choice of organic products. Winning over consumers with its private brands, which are thus far relatively unknown, is critical for Lidl's success. At the same time, some shoppers miss certain brands unavailable at Lidl, which is the number-three reason that consumers may not shop there more often in the future.

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## 6 SATISFACTION IS HIGHER IN STATES LIDL ENTERED RECENTLY THAN IN THOSE IT ENTERED EARLIER

One explanation could be that Lidl has used lessons from earlier store openings to inform its more recent ones. For example, it has simplified its promotional structure in the US. Lidl has also reduced the cadence of fresh-food promotions: Initially, it rotated these twice a week, as it does in Europe – but after four months in the US, this went down to once a week.

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## 7 CONSUMERS DEMAND BETTER LOCATIONS FOR LIDL STORES

Difficulty in reaching stores is cited as the number-one reason for not shopping more often at Lidl. Numerous reports have indicated that the company is aware of and addressing this challenge, and it has announced a more flexible approach to real estate and store sizes to prioritize convenience. Previously, Lidl exclusively bought and built from scratch, but it is now open to utilizing existing retail space. A lease that it signed at the Staten Island Mall is a sign of this evolving approach.

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## 8 FREQUENT LIDL CUSTOMERS HAVE NOTICED A “LIDL-EFFECT” ON PRICES AT NEARBY GROCERS

Sixty-seven percent of Lidl shoppers believe that prices at nearby grocery stores have decreased since Lidl’s arrival. According to a study by the University of North Carolina, grocers located near Lidl stores lowered the prices of key staples, such as milk and bread, by up to 55 percent compared to stores in markets without a Lidl. On average, retailers in markets with a Lidl store set their prices 9.3 percent lower than those in markets without the discounter, the study found.

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## 9 LIDL IS STEALING CUSTOMERS FROM ALL INCUMBENT RETAILERS, ESPECIALLY WALMART, KROGER, AND ALDI

A large proportion of consumers who are normally loyal to an incumbent grocer are concurrently cross-shopping at Lidl. For example, 52 percent of Walmart customers indicated that they shop at Lidl at least two to three times per month on average. The numbers for Kroger and Aldi are similar. These figures reinforce other analyses we have carried out, which show shoppers splitting baskets into multiple trips. This trend is worrisome for supermarkets and hypermarkets, whose business model is built on capturing the vast majority of their consumers’ spend.

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## 10 MORE NON-LIDL SHOPPERS INTEND TO VISIT A LIDL STORE IN THE FUTURE

Consumers who have never shopped at Lidl are becoming increasingly aware of it, according to a comparison of responses this year and last year from the same metropolitan areas. This is likely due to Lidl’s growing number of stores, as well as its marketing efforts. As was the case last year, some respondents (9 percent) who have not yet shopped there do not plan to do so in the future. Nevertheless, more and more consumers who have not yet shopped at Lidl do intend to give it a try.

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## IMPLICATIONS FOR OTHER GROCERS

US consumers are showing an appetite for formats that offer good value for money. Lidl is a new player in this market and operates only about 50 stores in six states, but it is clearly here to stay. Fellow European hard discounter Aldi already has a network of over 1,600 US stores.

So, Lidl's entry marks a further expansion of hard discounters, increasing the threat to incumbent grocery retailers. Forty percent of consumers we surveyed are loyal to supermarkets but now shop at Lidl more than twice per month. Grocery retailing is a zero-sum game, meaning every dollar spent at Lidl will go missing from incumbent grocers' cash registers. Therefore, we recommend incumbent retailers re-define their strategies to respond to this market shift – and that they do so quickly:

The Lidl-effect

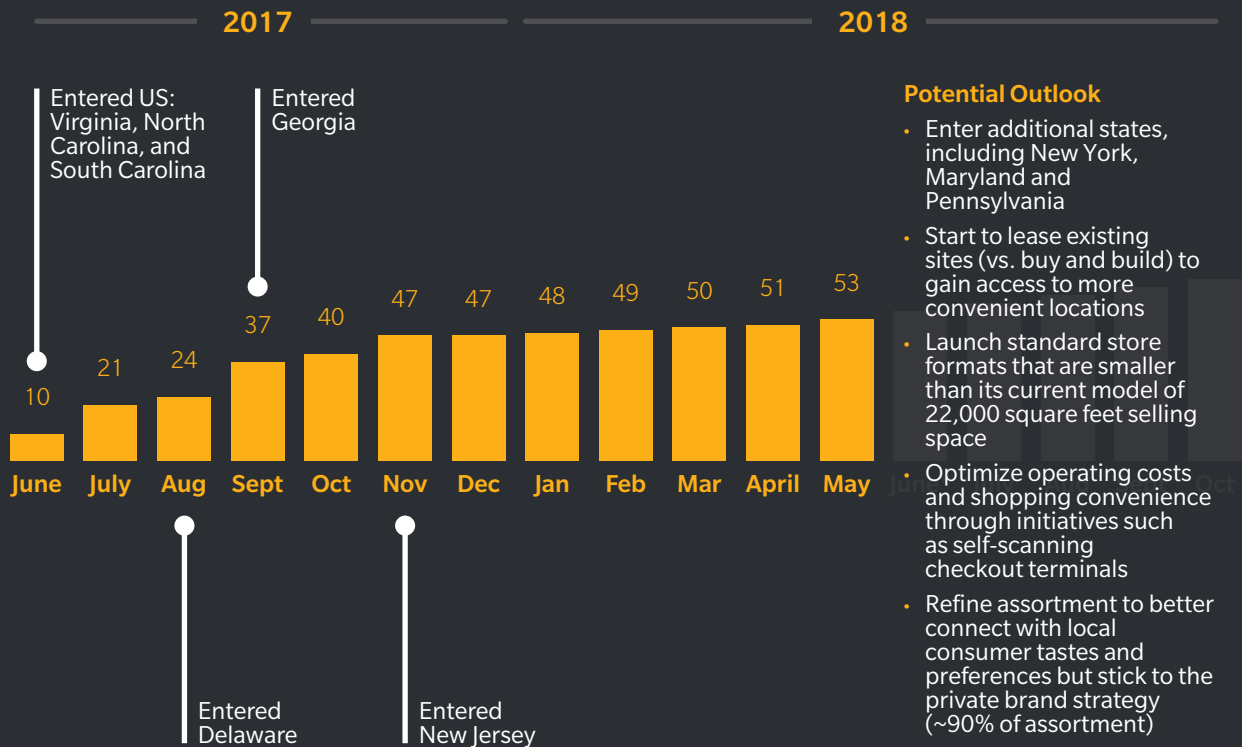
67%

think prices at other nearby grocers have decreased since Lidl's arrival

- **Value:** Several grocers have lowered prices in response to Lidl's market entry. However, survey results indicate that Lidl is beating grocery retailers in value perception, the only exception being Aldi. Grocers will need to consider where to invest in price, but given Lidl's broader appeal, they will need to consider how to balance their price investments with the other levers mentioned.
- **Fresh food:** Many customers are dissatisfied with the current fresh food offerings at incumbent grocers, and Lidl, surprisingly, wins against all of them in this dimension. In our experience, moving from "average" to "best" in fresh food can boost revenues by up to 10 percent. (See the Oliver Wyman report *Fresh or Fail*). So, to take advantage of the opportunity, retailers must optimize the journey food makes "from farm to fork."
- **Assortment:** While consumers know incumbent grocers have broader product selection than Lidl, they score Lidl equal to or better than grocers on assortment. This corroborates other research that indicates consumers become overwhelmed by too much selection. Grocers should consider paring their offering and complementing it with a strong private brand of their own. They can also differentiate themselves through deli and service counters, which are typically unavailable at hard discounters.
- **Labor productivity and store operations:** The hard discounter business model is based on the principles of efficiency and zero waste in store operations. In-store labor costs at hard discounters amount to only 4 to 5 percent of sales, whereas traditional supermarkets average 9 to 12 percent. There is tremendous potential to streamline incumbent grocers' in-store operations, but optimizations need to be executed wisely to maintain customer satisfaction, as outlined in Oliver Wyman's research on *Optimizing Store Operations*.

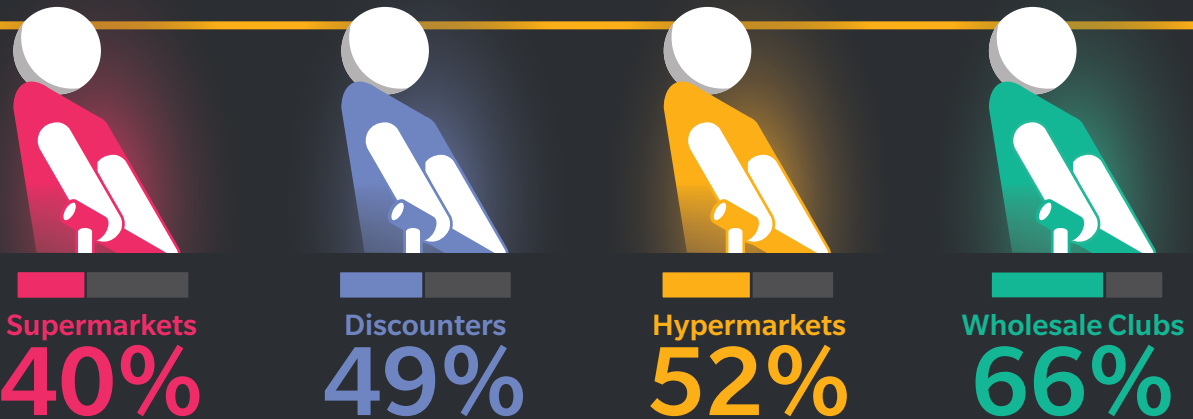
While Lidl's modest number of store openings in 2018 will limit the near-term impact on incumbent grocers, Lidl is effectively tapping into American consumers' changing tastes and preferences. Lidl's first year in the US and Aldi's growing network highlight the latent consumer demand for a value-for-money, less-is-more format. While neither of the two discounters is uniquely able to respond to this change in consumer interests, they are very well positioned.

## LIDL US CURRENTLY OPERATES ~50 STORES IN SIX STATES ITS RATE OF EXPANSION HAS MODERATED WHILE THE GROCER IS REFINING ITS US CONCEPT



Source: Oliver Wyman analysis, Lidl press releases and website

## LIDL US HAS BROAD APPEAL INCLUDING SUPERMARKET CUSTOMERS PERCENT OF CUSTOMERS LOYAL TO OTHER STORE FORMATS WHO REGULARLY SHOP AT LIDL US



Source: Oliver Wyman consumer survey 2018 (n = 600 US consumers that tried Lidl)

## LIDL US CUSTOMER LOYALTY STABILIZES

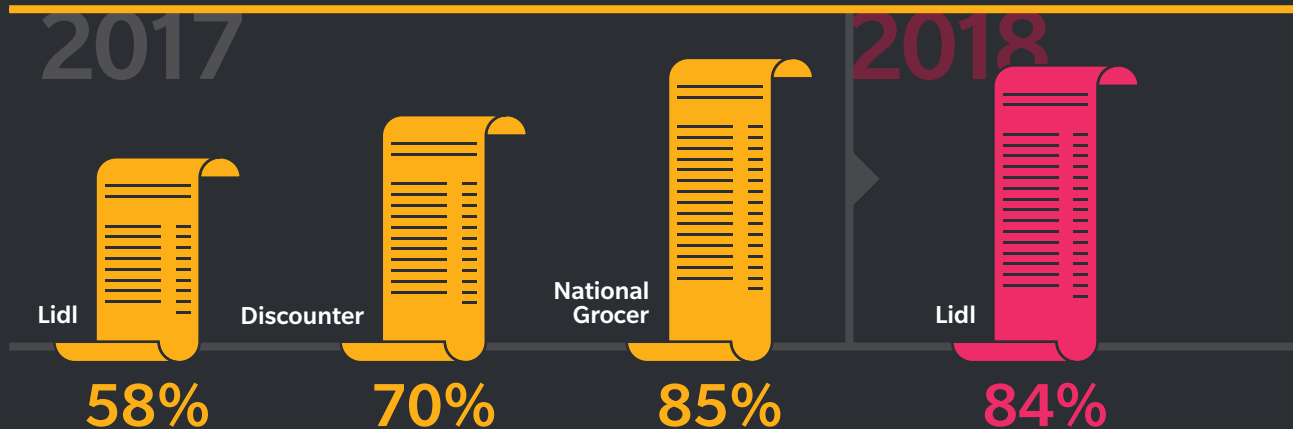
57% OF ALL LIDL SHOPPERS SAY THEY WILL SHOP THERE MORE FREQUENTLY IN THE FUTURE



Source: Oliver Wyman analysis

## LIDL US SHOPPERS INCREASE BASKET SPEND, SIGNALING SHIFT IN CONSUMER BEHAVIOR

SHARE OF BASKETS >20 USD



Source: Oliver Wyman consumer survey 2017 (n = 300 US consumers that tried Lidl) and 2018 (n = 600 US consumers that tried Lidl)

## US CONSUMERS ARE HIGHLY SATISFIED WITH LIDL'S OFFERINGS



Freshness and  
quality of produce

**63%**



Quality of fresh  
meat and poultry

**58%**



Weekly changing  
non-food offer

**48%**



Choice of  
organic products

**52%**



Selection and  
value of wine

**51%**



High Satisfaction
  Medium Satisfaction
  Low Satisfaction

Source: Oliver Wyman consumer survey 2018 (n = 600 US consumers that tried Lidl)

## ABOUT OLIVER WYMAN

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialised expertise in strategy, operations, risk management, and organisation transformation.

In the Retail & Consumer Goods Practice, we draw on unrivalled customer and strategic insight and state-of-the-art analytical techniques to deliver better results for our clients. We understand what it takes to win in retail: an obsession with serving the customer, constant dedication to better execution, and a relentless drive to improve capabilities. We believe our hands-on approach to making change happen is truly unique – and over the last 20 years, we've built our business by helping retailers build theirs.

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