



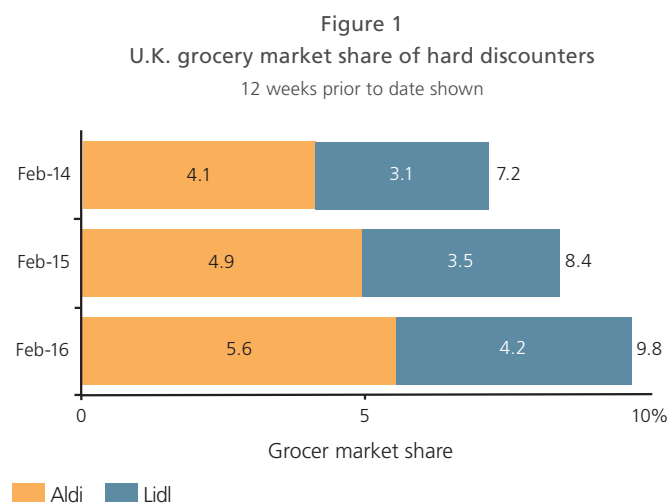
Beating Back Hard Discounters Update: Have the UK's Big Four Supermarkets Done Enough?

Over the past 18 months, the supermarket price war has become an ever more common narrative in the U.K. national news, and this certainly appears to be reflected in national statistics.

Since mid-2014 food and non-alcohol consumer prices have declined at 2.1% per annum. But the question remains whether the U.K.'s big four supermarkets — Sainsbury's, Tesco, Asda and Morrisons — have done enough to win the battle with the continental hard discounters, Aldi and Lidl.

In our [Executive Insights Beating Back Hard Discounters: Lessons From France for the U.K.'s Big Four Supermarkets](#) we examined how the U.K.'s 'big four' were struggling with the insurgent threat posed by the hard discounters. At the time of our report in October 2014, these two retailers had increased their U.K. grocery market share from 5% at the start of 2012 to more than 8%. We observed how the big four priced at a substantial premium to the hard discounters on both branded and private label goods, with Morrisons and Tesco being 30% more expensive on the latter.

The supermarket price war is heating up. But are the U.K.'s big four doing enough to win the battle with the continental hard discounters?



Source: Kantar Worldpanel

So, has the tide turned? The answer, as Figure 1 illustrates, is not yet. Both Lidl and Aldi have continued to steadily take U.K. market share — and at a rate that outstrips their growth in new stores. In fact, the two discounters took over 10% of the U.K. market for the first time in the 12 weeks to November 2015 (although their share fell slightly over the Christmas period).

This continued gain in market share comes despite substantial price reductions at the big supermarkets since late 2014. During that period Asda, Tesco and Morrisons closed the price gap on both national brands and private label goods (see Figure 2).

However all of the big four remain substantially more expensive than Aldi, with a bigger gap on private label goods than on

Beating Back Hard Discounters Update: Have the U.K.'s Big Four Supermarkets Done Enough? was written by **Jonathan Simmons** and **Geoff Parkin**, partners in L.E.K. Consulting's Consumer Products and Retail practice, and **Jonathon Green**, a manager. Jonathan, Geoff and Jonathon are based in London.

For more information, please contact retail@lek.com

national brands (see Figure 3). This story is a marked contrast to what happened in France. Our first *Executive Insights* on this topic explained that big supermarkets were able to seize back the

initiative by pricing at parity with the discounters on national brand items and, perhaps more notably, pricing private label budget items at a 10-15% discount.

Figure 2
Price reductions amongst U.K. supermarkets and hard discounters (August 2014 - February 2016)

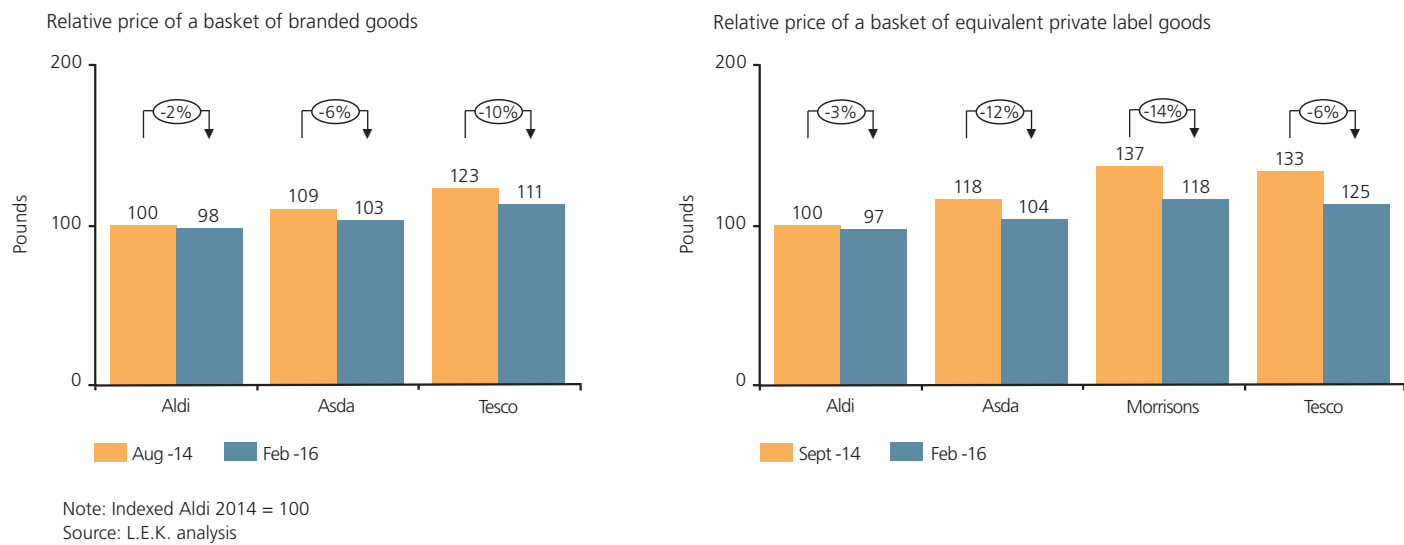
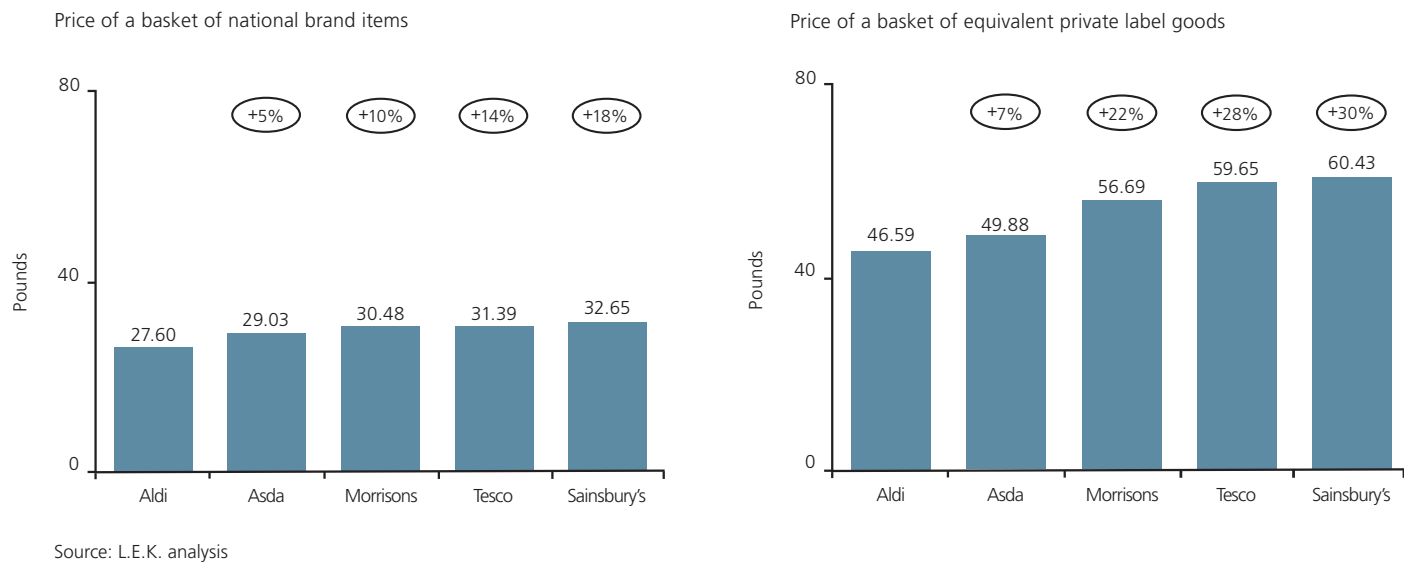


Figure 3
Price comparison of U.K. supermarkets vs. hard discounters (February 2016)



Executive Insights

Whilst the big four have certainly made progress since late 2014, our analysis proves that they still have some way to go if they are to effectively address the threat. As we previously outlined, L.E.K. recommends six key initiatives for U.K. supermarkets to regain their leadership:

1. Redefine consumer pricing strategy and collaborate closely with suppliers to scrutinize all elements of supplier costs and pricing
2. Drive rigorous zero-base cost reduction across their operations and supply chain
3. Review private label strategy to offer better value and compete more effectively against discounter's own ranges
4. Continue to review store footprint and format to drive increased footfall and consumer expenditure in store
5. Clearly define target consumer segments and deliver a differentiated proposition
6. Rationalize non-core businesses that do not directly support the fundamental customer proposition

These six strategic initiatives are all aimed at passing efficiency gains to consumers through lower pricing, while ensuring profit protection and an eventual return to growth.

About the Authors



Jonathan Simmons is a partner in L.E.K. Consulting's London office. He has almost 30 years of strategy consulting experience and leads L.E.K.'s European Retail and Consumer Products Practice. Jonathan has provided strategic advice to a broad range of U.K. and European-based companies, and companies from other regions seeking European market entry, with a particular focus on specialty retail, apparel and accessories, sports retail and brands, airport retail, automotive services and grocery retail.



Geoff Parkin is a partner in L.E.K. Consulting's London office. He has been with L.E.K. for more than 15 years and has broad experience assisting U.K. and international clients with strategy development and due diligence assignments. Prior to joining L.E.K. in 1999, Geoff worked in commercial line management roles for British Airways and American Express, based in London, Copenhagen and Amsterdam.

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