



**How Irish Consumers are
adapting to change**

October 2003

DB/bs

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INTRODUCTION

This report presents the findings of a quantitative survey carried out by Behaviour & Attitudes during September 2003.

Just over a year ago, a number of our regular clients, who had an interest in the grocery sector, asked us for a commentary on the development of Aldi and Lidl in the Irish market to date. The two reports⁽¹⁾ which we produced at that time are available via our website: www.banda.ie

Given that a year has passed since the production of the earlier reports, we felt it opportune to check on the performance of Aldi and Lidl since then and to look at the results in light of some of the predictions that had been made a year ago. A questionnaire, covering selected questions from the two earlier projects, was included in the Behaviour & Attitudes Barometer survey for September 2003. This survey is a syndicated survey allowing economic access to a nationally representative sample of adults. The survey is conducted on a fortnightly basis, using a freshly drawn sample of respondents each time.

The sample for the Barometer survey covers a nationally representative sample of 1,200 adults, quota controlled to reflect the demographic characteristics of the population as a whole. The quotas are set in line with the agreed AIMRO⁽²⁾ population estimates.

Technical details on the sample, including a list of the sampling locations and a copy of the questionnaire used, are included in the technical appendices to this report.

NOTE ON REPORT FORMAT

One of the reasons we have focussed on the Aldi and Lidl case history is that we feel it sheds light on how the Irish consumer market has changed over the years. It is very easy to ascribe the success of Aldi and Lidl in Ireland to the appeal of “a low price offering”. There is, of course, some significant truth in that hypothesis.

However, it is our feeling that the Aldi and Lidl success story has been somewhat more complex than most commentators realise and that marketing professionals would benefit from having a thorough understanding of the case history so that the lessons are not misunderstood and, consequently, misapplied to other markets.

With this in mind, part one of our commentary is devoted to an analysis of recent changes in Irish consumer markets, drawing on the grocery shopping experience but attempting to set that within the broader context of social and economic change which has a much more general application.

Part two of the commentary then summarises the results of the Barometer survey itself, drawing comparisons with the relevant results from the survey undertaken a year ago. In doing this we will provide some indicators of the predictive powers of relatively conventional marketing research techniques.

We conclude the report with a brief summary of some of our key conclusions, the technical appendices described earlier, and a set of references for issues highlighted in the text.

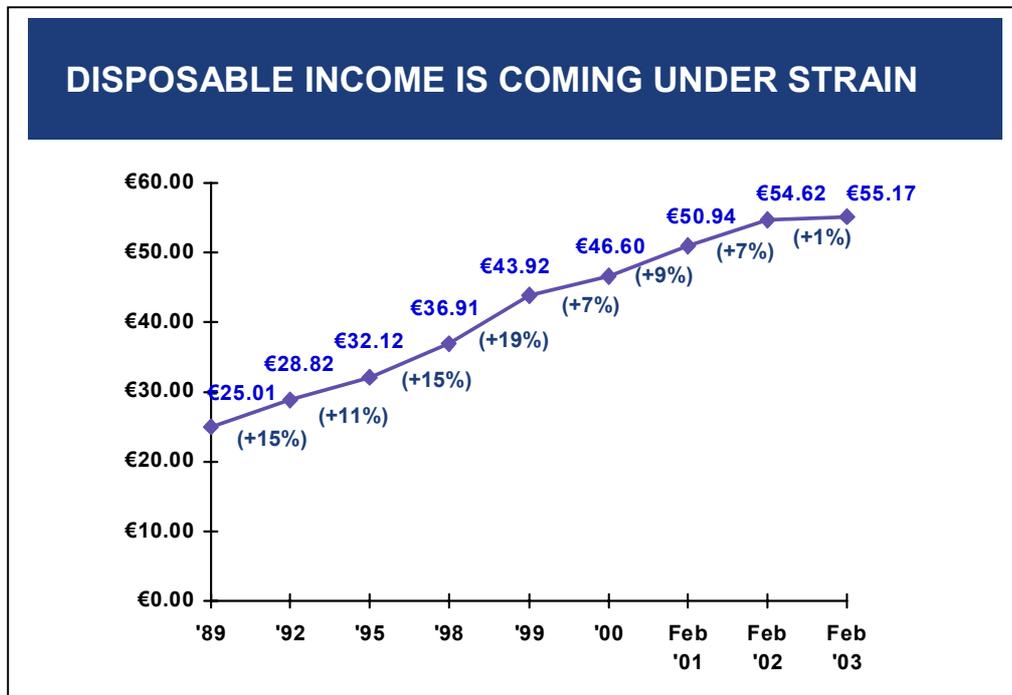
CHAPTER ONE THE CONTEXTUAL BACKGROUND

1.1 The Celtic Tiger Bandwagon Derailed?

We have written elsewhere⁽³⁾ about the phenomenal economic boom in Ireland which began in the late 80's and continued almost unabated throughout the 90's. The sheer rate of economic progress, in such a concentrated period of time, produced a culture shift: nothing less.

- Irish consumers gained a self-confidence which completely altered expectations in regard to range of choice, product and service quality.
- Whether that self-confidence was well founded or not is a point we will return to later.
- The formative influence of younger consumers was so different to that of their parents as to produce two different "tribes" within the Irish consumer market.
- The older tribe was put "on the back foot". They may have harboured some reservations about the newly emergent culture but they could not gainsay the economic advances that accompanied it.
- The younger generation were encouraged to the view that "anything is possible" and they behaved accordingly.
- Not everybody was carried along, equally well on the rising tide. There is clear evidence of a widening gap, towards the end of the boom times, between those at the better off and those at the less well off, end of the economic spectrum.⁽⁴⁾

As we entered the new millennium, something quite dramatic happened. Our stream of disposable income began to come under strain, as is evident from the following chart:



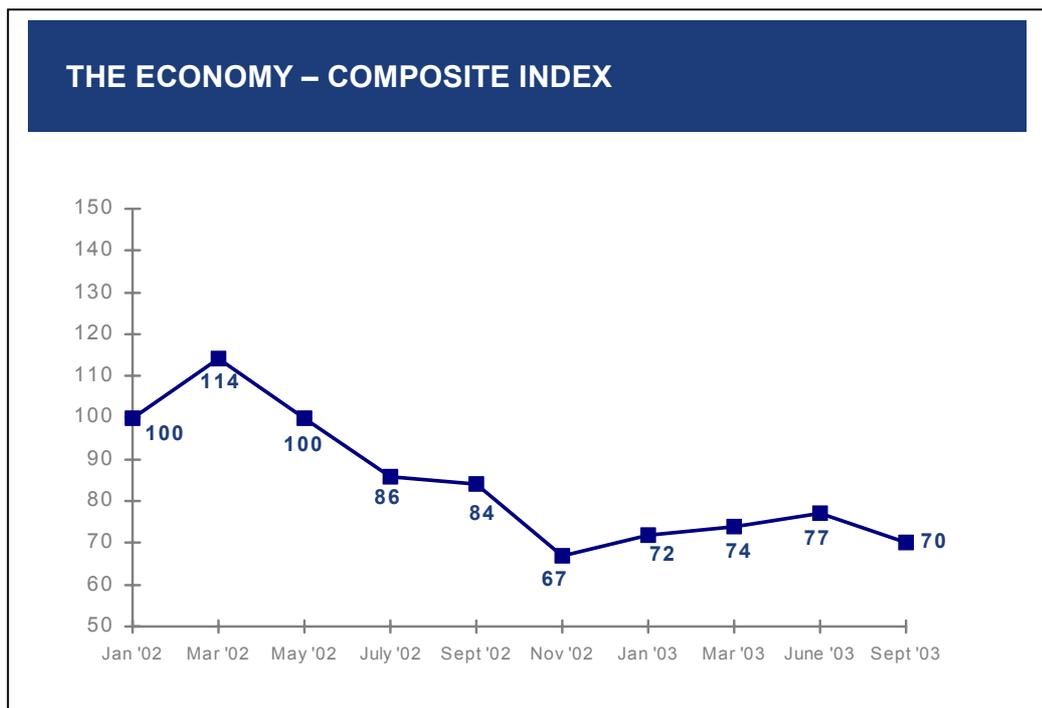
These findings derive from a relatively simple question which we have been tracking in our Barometer survey over an extended period of time. We ask people, on a periodic basis, how much they have left over to spend on small treats for themselves, each week after they have covered their major expenses.

After 1999 there was a sharp deceleration in the rate of increase in this index from one year to the next.

Since February of last year the rate of increase in perceived disposable income has been below inflation. In other words for the first time in many years, Irish consumers are beginning to feel the pinch. For many Irish consumers under the age of 35, this is a completely new experience.

1.2 A crisis of confidence

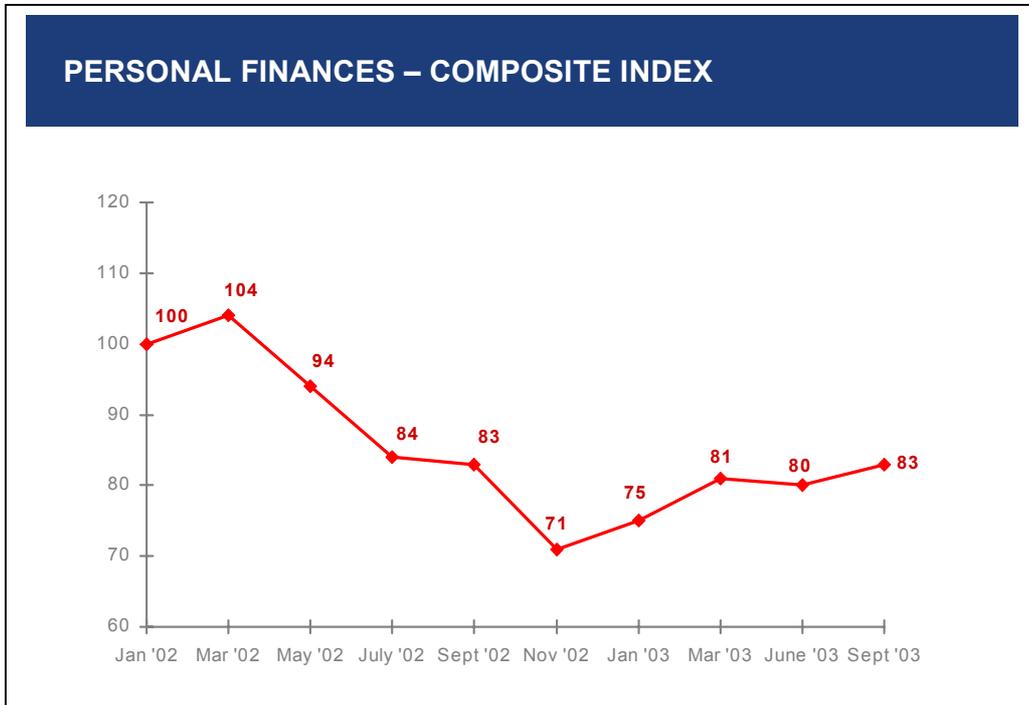
The impact of this sudden change in consumer confidence has been deeper, and more sudden, than many realise. We have been tracking consumer confidence throughout the period⁽⁵⁾. The index of consumer perceptions of the performance of the economy looks like this.



In March 2002, the index for the economy hit a high point: marking a “bounce back” after the awful events in New York in the preceding September.

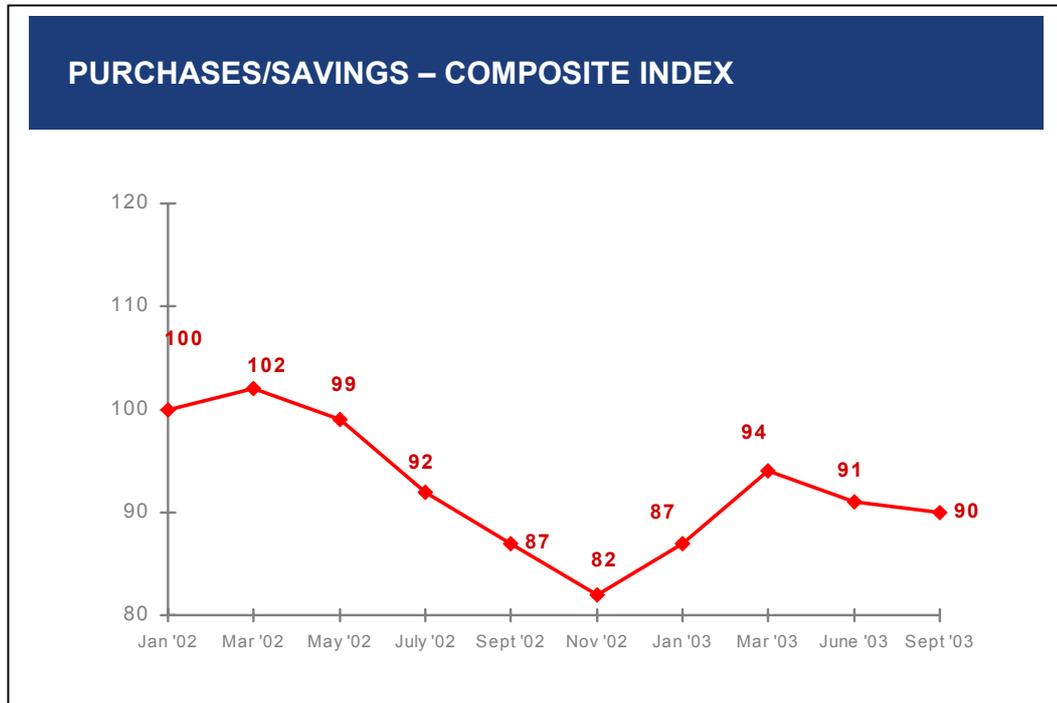
In the following eight months, consumer perceptions of the performance of the economy fell by 48 points on our index. Irish consumer perceptions of the performance of the economy have not changed all that dramatically since then.

People's perceptions of change in their personal finances have been less traumatic: but only in degree



The index relating to personal finances has declined less sharply and shown slightly better indicators of recovery. Nevertheless, it is true that the composite index for personal finances is currently 21 points lower than was the case in March of 2002.

This does not translate directly into a comparable decline in intentions in regard to purchasing and savings, but the overall pattern of response is like a scaled down version of what we have just seen.



The dip in purchase intentions is not so marked as for the other indices but it carries a number of the same hall marks:-

- The decline was quite sudden.
- There were signs of some recovery in confidence in late 2002 and early 2003 but the recovery has not been sustained and has not “taken off” in the last six months.
- The cumulative effect is that, for the past 18 months, people have had to accommodate themselves to tougher times.
- For those aged under 35 this is, as was mentioned earlier, a new experience. These young, family formation groups, are the ones who are feeling the pinch most. In almost any market that we investigate we see evidence of this. They are the people with the largest mortgages, the highest levels of expectations and the greatest disruption to their lifestyles and working arrangements as young children start to arrive.

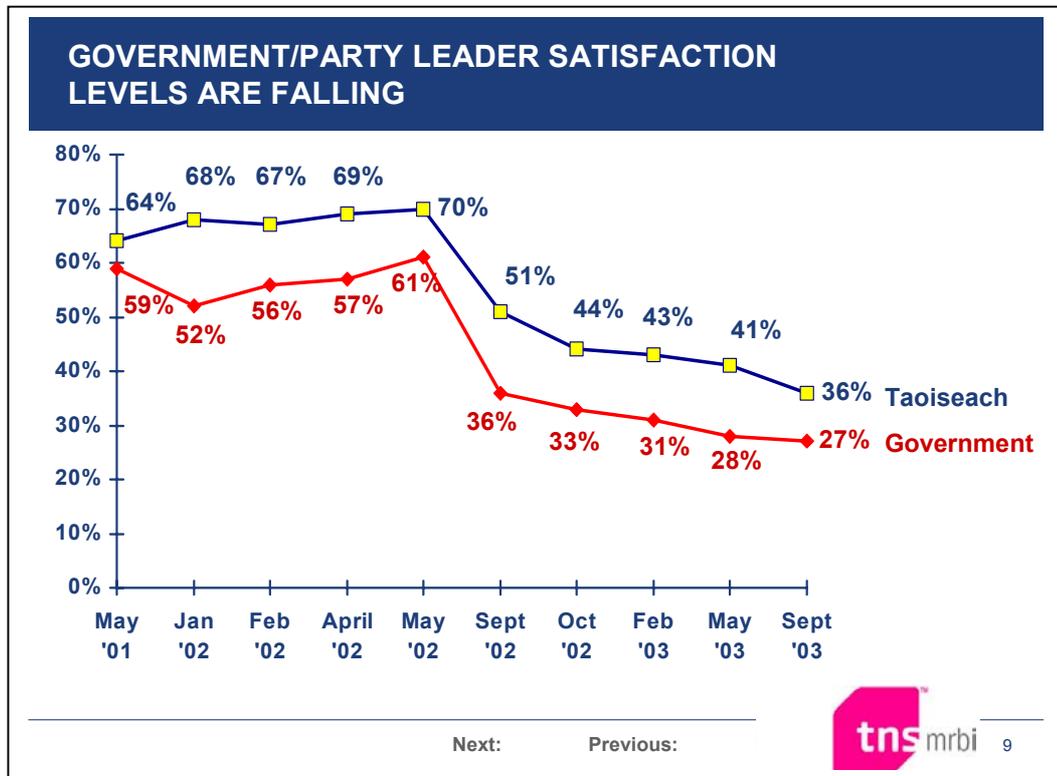
The impact is more broadly based and more problematic than even this scenario suggests however.

Older people, whose views had been modified by the Celtic Tiger experience, were beginning to look forward to a more prosperous future: enjoying the benefits of the asset base which they had built, and looking forward to being the first generation of Irish people to gain significant benefit in terms of inheritance and pension arrangements.

They are now confronted with the prospect of subventing the house purchase plans of their adult children. This was not what “we” had in mind.

It is perhaps not too surprising, in all the circumstances, to find that we are beginning to get rather grumpy. This has manifested itself in many ways.

The collapse in the popularity of the Taoiseach and the Government of the day, is one confirmation of this.



(We are indebted to Ian McShane of TNS/MRBI for permission to use these data as an indicator of change).

This is just one piece of evidence of the impact of the changes that we have been describing. It has the advantage of being available for publication.

A great deal of analogous, private research data would show a similar picture. Ask any of your friends, involved in any of the service industries who conduct regular customer satisfaction trackers - what has been happening? Any, that I am aware of, have shown significant dips in consumer "enchantment".

1.3 An identify crisis

The sudden about-face in our levels of confidence have led us to question some aspects of the New Ireland that we were beginning to take for granted.

- We know that we have moved a long way from Mr. DeValera's original vision of Irish identity.
- Has this been replaced by any equally coherent contemporary vision?
- We have accepted an economic model which, in the phrase of our Tanaiste, puts us closer to Boston than Berlin. We have seen the economic benefits of "the Boston model" but are we happy that we were right in setting aside some of our European sensibilities in areas such as healthcare?
- Most of all perhaps, we wonder what has happened to the promises of the recent past: so many significant plans seems to have fallen short of expectations and now the funds to support the plans are drying up.
- We have been exposed to a much more cosmopolitan set of influences. Our younger people in particular have become used to buying brands from all around the world Stores like HMV, Argos, Debenhams (and any number of other examples) have become part of the normal "furniture" of the Irish shopping experience.
- Among young urban beer drinkers, which is the more popular brand – Guinness or Budweiser. Which brand of cigarettes are they more likely to be smoking on the footpath outside a pub near you in the early part of next year – Marlboro or Major?
- Apply the same guidelines to any market you wish: newspapers, television viewing, yogurts: the old 'protection' of Irish brands, inherent in a more closed environment, has been dissipated.
- Even a market as conservative as the banking sector has been shaken, certainly in the business sector, by the arrival of new competitors capitalising on this shift in Irish consumer sensibility.

1.4 The Need for a Reality Check

When it was published originally some years ago, the book “I’m ok, you’re ok” ⁽⁶⁾ brought the concept of transactional analysis to the consciousness of marketing people.

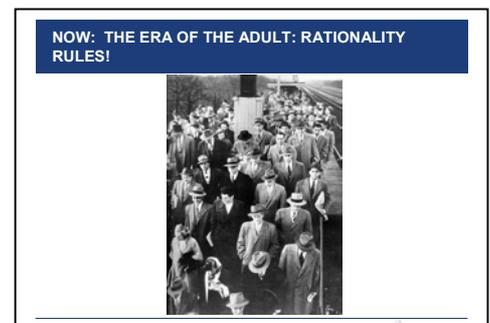
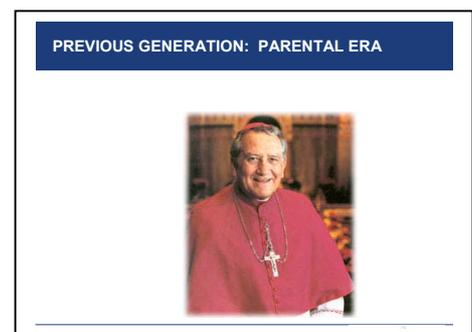
The book highlighted the need to be on the same mental wavelength as your consumer in marketing communications. Some brands had a degree of playfulness attaching to them. This allowed for the possibility of a playful, childlike, fun oriented tone of voice in branding and advertising communications. Other brands required a more adult, rational tone of voice. Some (notably in the areas of insurance and healthcare) could adopt a parental tone.

In retrospect one could say that Ireland has gone through the full range of these personality imprints on our collective consciousness in a relatively short period of time.

It is a gross exaggeration, but not necessarily an unhelpful one, to realise that the 1990’s were the decade of the child. That is beginning to “fray” .

The earlier era was that of the parent. We are all living with examples today of the problems that can arise from that type of model.

We have a strong sense that Irish consumers are now moving into a more adult, rational mode where consumers are disenchanted with the notion of having being ripped off in the past (and they certainly believe that). They are looking for real experiences, ones that they can rely on.



This was predicted by David Lewis in his very forward looking book “The Soul of the New Consumer” ⁽⁷⁾. He wasn’t thinking specifically of Ireland. His canvas was a much broader one. He made the very telling point however that, in a world of increasing affluence, much greater choice and a great deal more time devoted to work and commuting, consumers would experience three distinct deficits in the areas of:-

- Time
- Attention
- Trust

The response of the consumer, is to look for brands that send out a clear signal of what they stand for (so that the consumer can “take it on board” quickly). Most of all, when the consumer samples a product it has to stand up to scrutiny. It has to win trust.

The search is on for “the real”. (Little surprise that Coca-Cola has adopted the slogan ‘real’). That can take on many guises. It may be a real original: witness the success of wines as a sector in this country (or the success of Bulmers up to very recently). It may be a real experience. Think of how our tastes in holidays are changing. Alternatively, think of how foreign visitors react to the reality of their Irish holiday experience.

It has been suggested that our growth in sophistication as consumers in Ireland has lagged behind the growth in our financial well being. One suspects that we have not used the additional funds which became available as imaginatively as we might have done. That extra sophistication is beginning to emerge now however and Irish consumers are beginning to realise the benefits that can accrue to the consumer who looks for a real bargain. Cheaper prices are one index of that, but other elements have to fall into place for consumers to be fully convinced.

Looked at in this light, the Aldi and Lidl “story” makes interesting reading. It contains interesting lessons for us all.

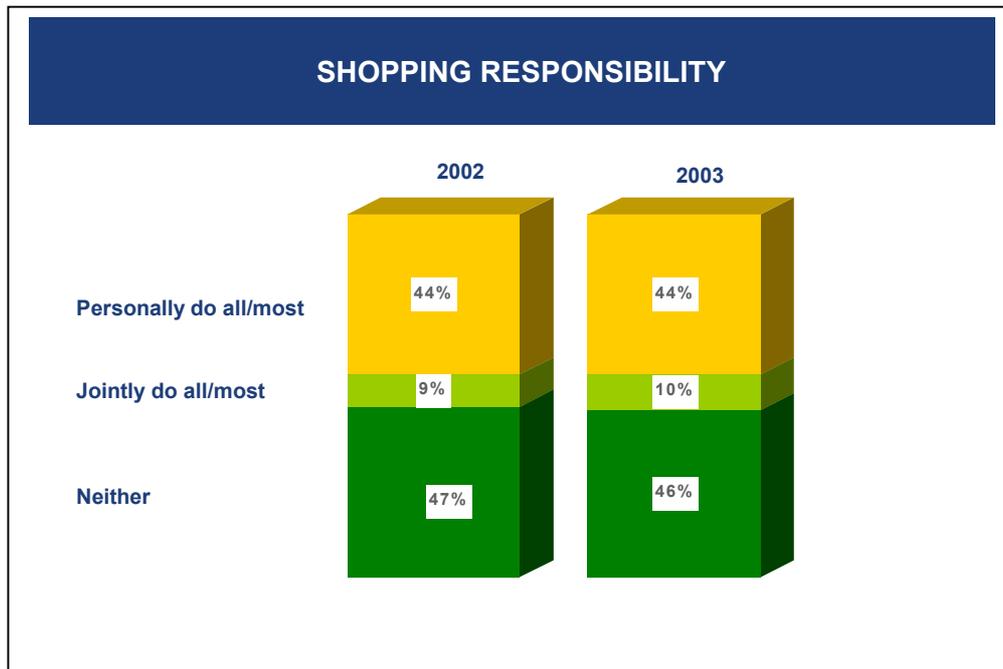
CHAPTER TWO

THE ALDI/LIDL CASE HISTORY

2.1 Relatively stable shopping patterns

We begin this review of the Aldi/Lidl survey data by examining some relatively simple indicators of shopping behaviour patterns. Our main purpose here is to demonstrate the stability of the data from two surveys conducted 12 months apart.

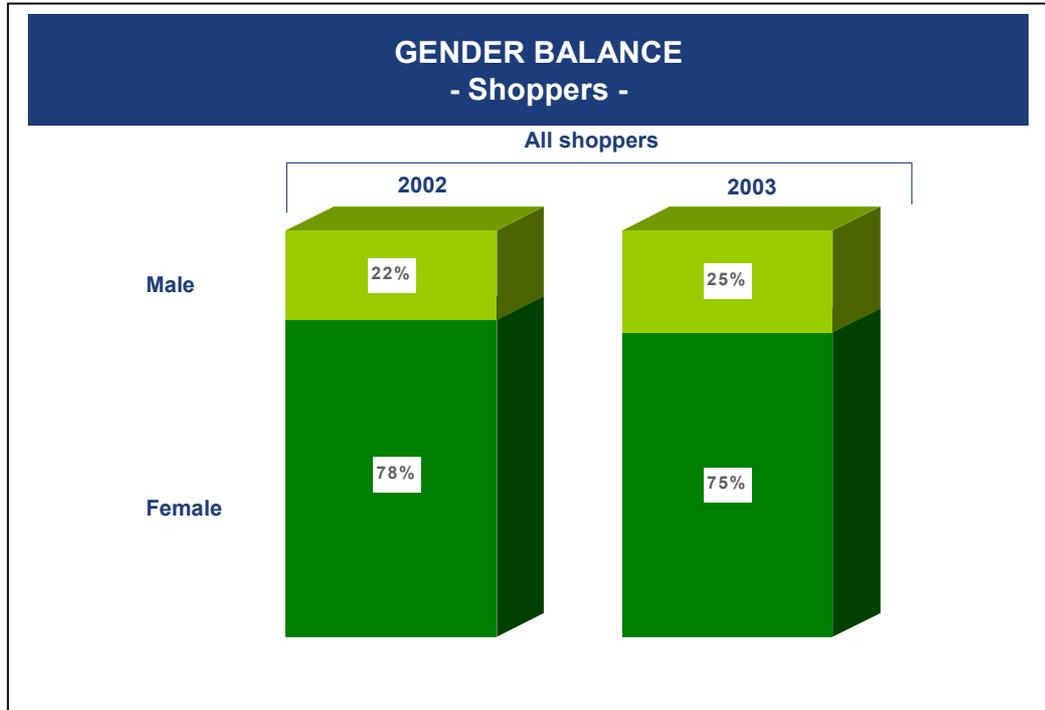
The first point we established in both surveys was the extent to which adults contacted in our surveys claimed to be personally responsible for grocery shopping for their household. As can be seen from the following chart, the pattern has not changed all that much over the past year.



It can be seen that in both surveys, 44% of adults claimed to be personally responsible for all or most of their household shopping while about 1 in 10 claim to have joint responsibility for shopping. The balance have no involvement.

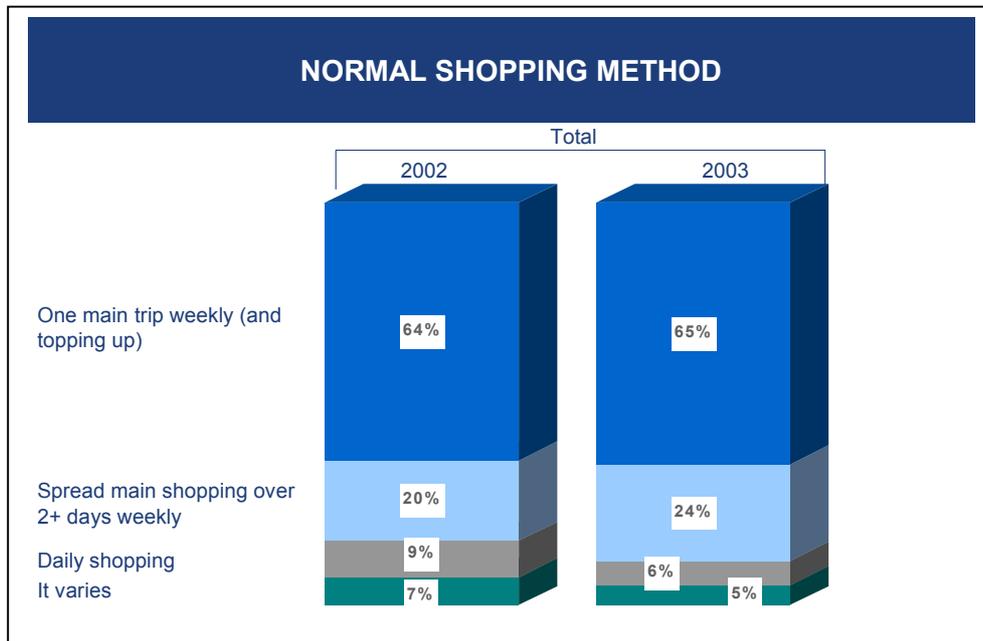
The remainder of the questions focussed on those respondents with at least some responsibility for shopping.

As can be seen from the following chart, there is a slight shift evident in the gender balance of shoppers:



Men are taking a slightly more active role in regard to shopping for their households but women continue to be the dominant players: accounting for three-quarters of all regular shoppers.

The typical shopping “programme” has not changed all that markedly over the past year either



Two-thirds of shoppers have one main trip weekly with some element of topping up.

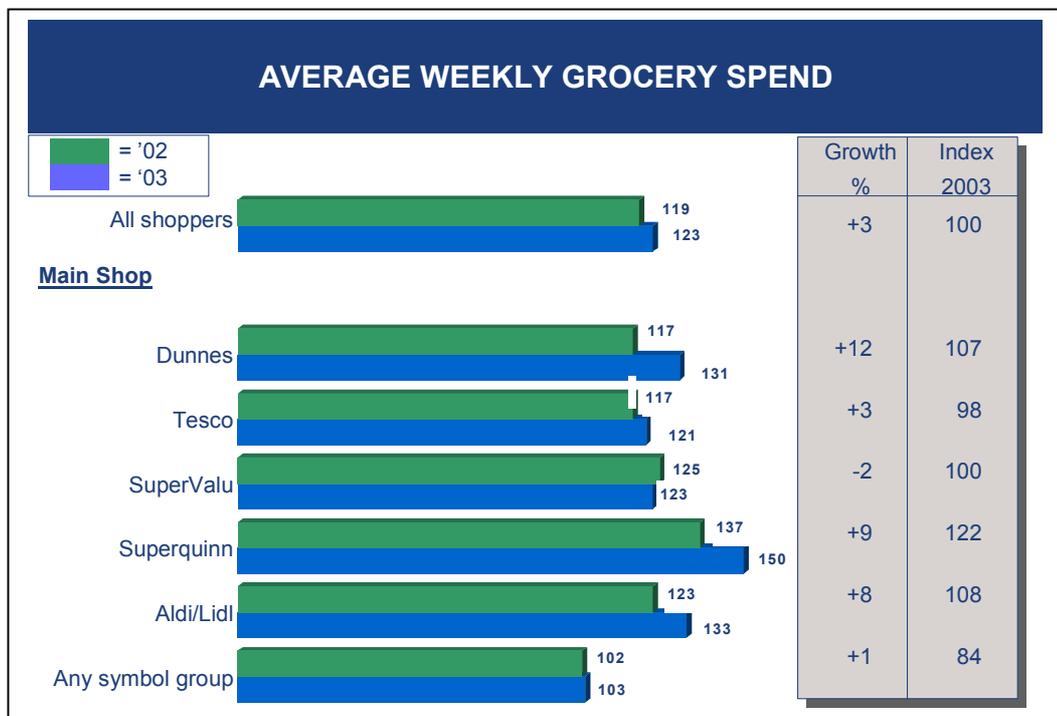
The next biggest group currently accounts for just over a quarter of shoppers. These are people who spread their main shopping over two or more days weekly.

The tendency to rely on daily shopping is, as one might expect, in decline.

2.2 A 3% increase in average grocery expenditure

In this survey, as in last year's equivalent, we asked shoppers how much they typically spend each week nowadays on their grocery shopping. The average in the current survey came out at €123. This represents a 3% increase by comparison with the equivalent figure from last year's survey.

There are some variations in this overall pattern, depending on the store used most often by shoppers. Results are summarised below:



It can be seen that Superquinn shoppers are the ones who spend most on their weekly shopping nowadays. At €150 per week, their typical weekly spend is 22% above average. In addition, the typical Superquinn shopper's expenditure on shopping has increased over the past 12 months at a faster rate than average (+9% vs. +3% on average).

Ironically, the shoppers with the next highest average bills are those who shop in Dunnes Stores on the one hand or Aldi and Lidl on the other. Their typical expenditure is 7 to 8% above average (we will see why in a moment) and they both have had above average increases in expenditure since last year.

Tesco and SuperValu shoppers are the closest to the overall average in weekly spend at present, and the increases they have experienced are towards the more modest end of the spectrum.

The people who spend least on their weekly grocery shopping are those using Symbol groups like Spar, Centra, Londis etc.

2.3 Differences in shopper profiles

An analysis of average weekly spend by shopper group can be somewhat deceptive. It may conceal significant demographic differences which contribute to, and explain to some degree, the different pattern of expenditure.

The most obvious variable exercising an influence here is household size. A large weekly bill may offer good value for money if one is catering for a larger than average family group.

There are, as one would expect, differences in typical household size for shoppers in the various stores and they put the average expenditure patterns into rather different light, as is evident here:

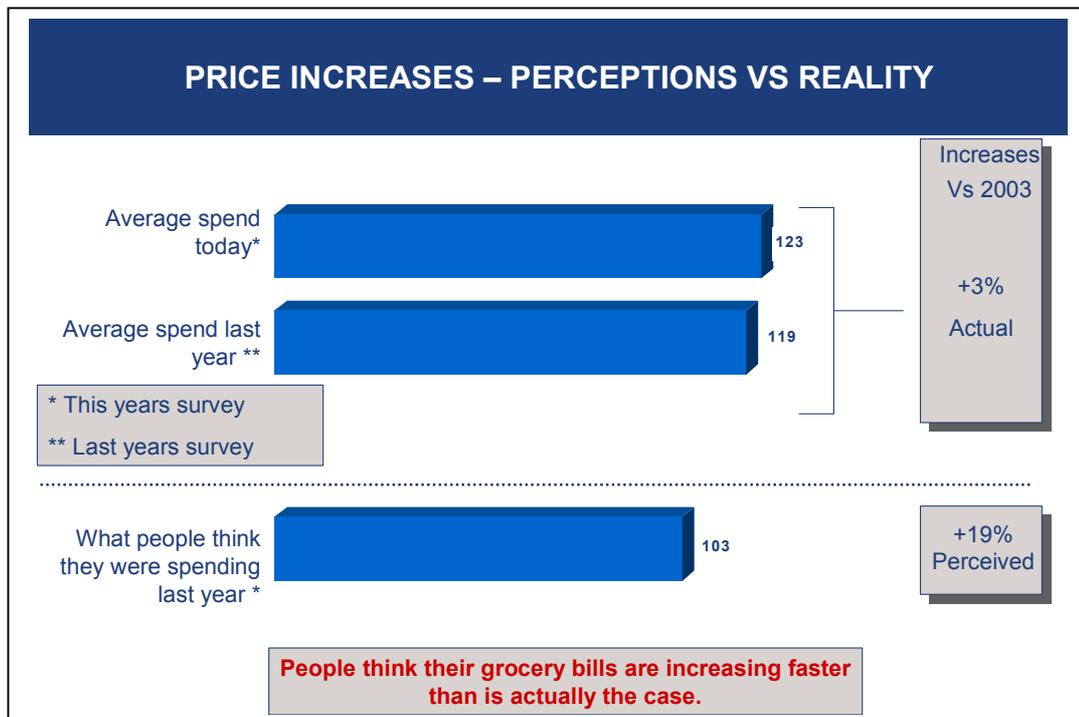
	Average Family Size	Weekly spend €	Spend per head €
<u>Regular shoppers at ...</u>			
Aldi/Lidl	3.32	133	40.10
Other Stores	2.24	122	54.56

The gap between Aldi/Lidl and others on a 'spend per head' basis is clear from this analysis.

2.4 Price Increases - Perceptions vs. Reality

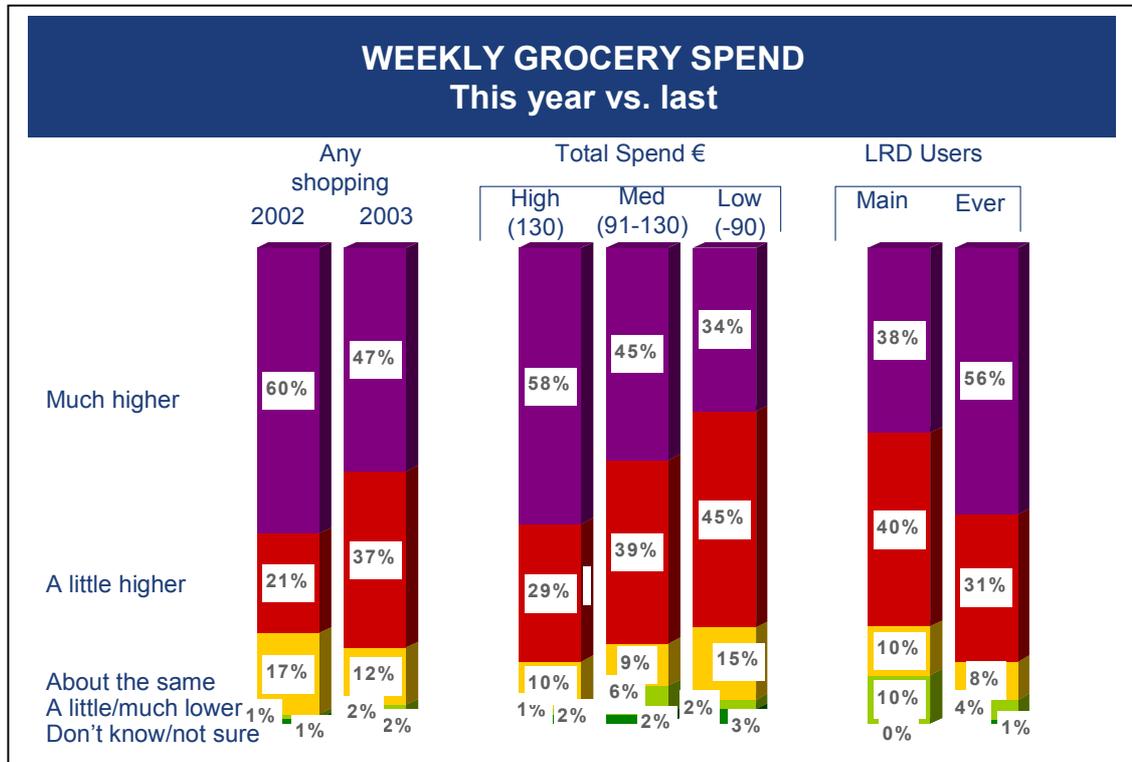
We saw earlier that average expenditure per household on grocery shopping has increased by 3% over the past 12 months. This derives from comparing the results of this year's survey with those from last year.

However, in the current survey, we collected one additional piece of information which "tells a story". We asked respondents in this year's survey what they thought they were spending on grocery shopping at this time last year. This gives an interesting insight into the consumer's thought processes. The key results are summarised below:-



The interesting insight from this analysis is that, while people have actually increased their expenditure by only 3%, they believe that they are spending 19% more than they were a year ago. This provides a very clear insight into how consumer perceptions have been distorted by the change in the economic climate described earlier: the phobia that consumers have developed about being "ripped off" (not just in relation to grocery shopping, but in a whole range of areas).

We see further evidence of the impact of this when we ask people to describe how they feel about the growth in expenditure of their grocery shopping over the past 12 months.



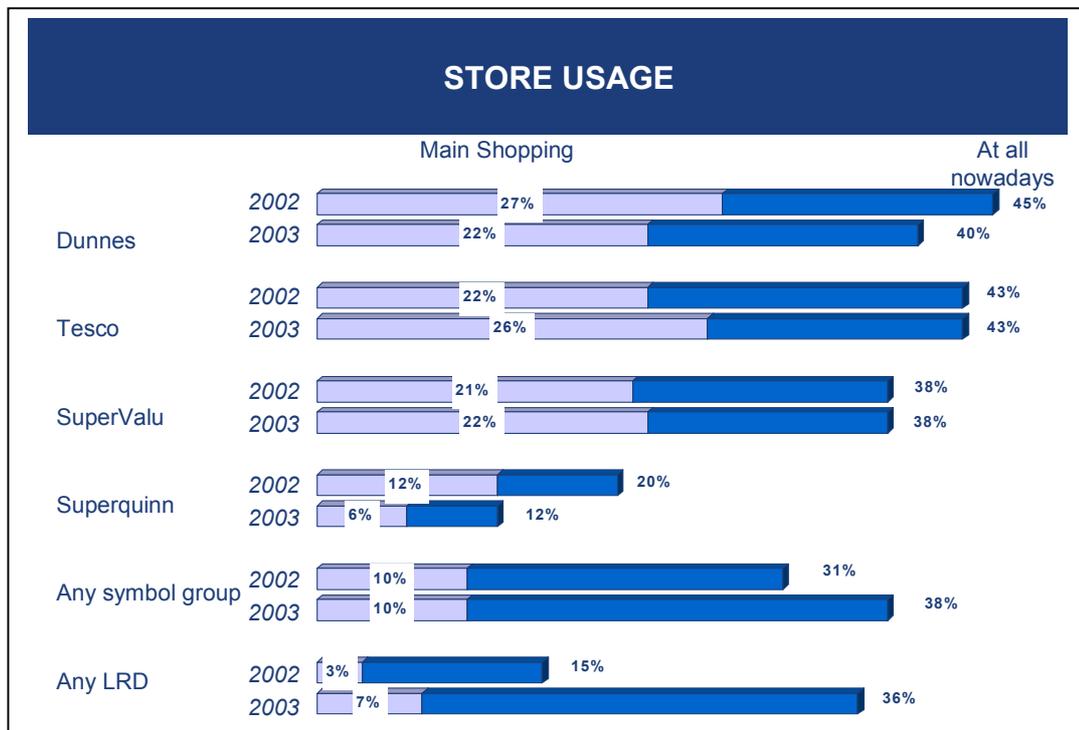
It can be seen that 84% of shoppers believe that they are spending more than they were a year ago. Almost half think that their expenditure this year is much higher than last year: reflecting the distorted perception described in the preceding section of this report.

Last year, people were even more convinced that prices were accelerating faster than the official CPI would indicate. There is evidence from other survey work that this was a function of people's response to the switch over to the Euro. As can be seen from the preceding chart, the people who are most conscious of significant increases in their grocery shopping bills are those who tend to be above average spenders. Interestingly, those who ever shop at Aldi or Lidl (the LRDs) are the group most conscious of the fact that their grocery bills have gone up by a significant margin. Within that, the people who are now using Aldi or Lidl as their main grocery shopping have a below average perception of price increases.

Linking these results to some of the data we will see later, it would appear that people who are feeling the economic pinch are experimenting with Aldi and Lidl on an occasional basis. Those who begin to use them more regularly get the benefit of what are perceived to be lower prices.

2.5 Shifts in Store Usage

We now turn to a consideration of how the market place has responded to the complex of change described in the earlier parts of this report. The following chart gives a clear signal of changes in the proportion of shoppers using any of the main stores at all nowadays and, within that, the numbers who choose to use that store as their main choice for grocery shopping.



Taking each of the stores in sequence, the overall indicators suggest the following:

- There has been a dip in the proportion of shoppers choosing Dunnes Stores at all nowadays and this decline has extended to the numbers choosing Dunnes as their main shopping outlet.
- The evidence suggests that Tesco has been somewhat more resilient: holding its overall usage level and increasing its main shopper share.
- The pattern has been rather similar for SuperValu.

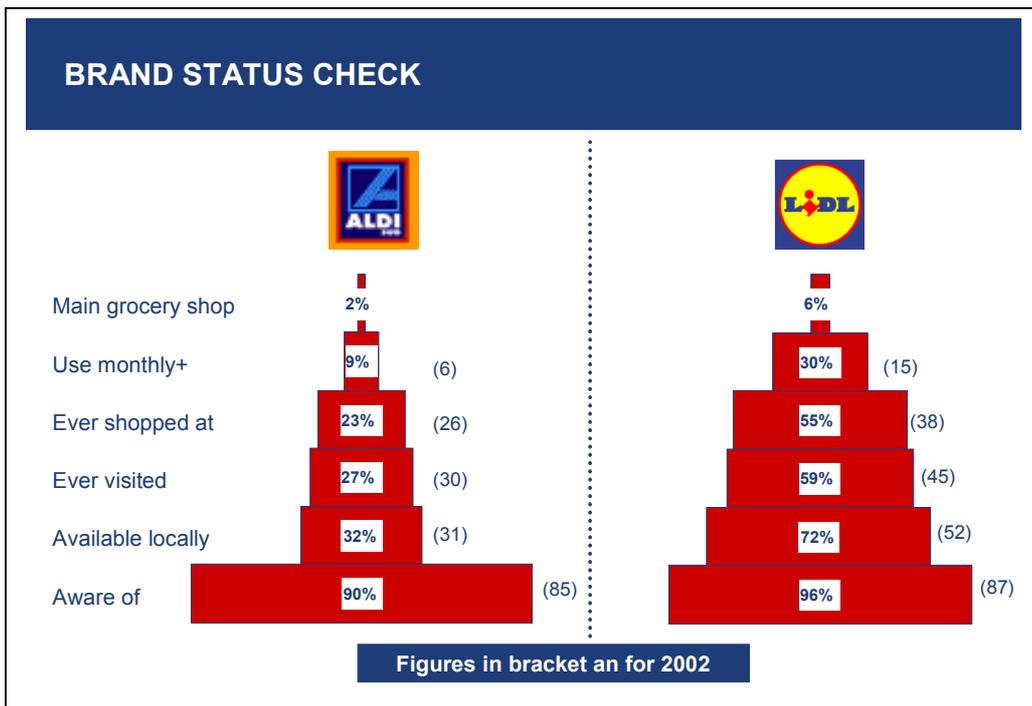
- Superquinn seems to have lost out to a significant degree, particularly in terms of the number of shoppers choosing this store as their most regular choice.
- Symbol groups have held their own in regard to regular shoppers and have increased their occasional shopper group.
- The most marked change has been in regard to Aldi and Lidl. The proportion of shoppers using these stores at all has more than doubled. The same is true of the proportion of shoppers who choose these stores as their main shopping outlet nowadays.
- However, it remains the case that Aldi and Lidl have atypically large groups of occasional shoppers: suggesting that very large numbers of people continue to use these stores on an occasional basis to stock up on certain types of products where savings can be achieved, and the items in question can be stored readily over time.

It must be borne in mind of course that the number of Aldi and Lidl stores in the country has increased significantly during the intervening time period. In September of last year it was estimated that, between them, Aldi and Lidl had a total of 38 stores. In the 12 months since then it is our understanding that they have increased to just over 50 stores.

2.6 Aldi or Lidl

So far we have focussed on the combination of the two store groups, Aldi and Lidl. We adopted that approach in last year's survey because of the much lower market share held by the stores at that time. We can now look at the relative performance of the two store groups individually.

The following chart shows a brand status check for each independently, summarising the proportion of shoppers who are aware of the stores, have them available in their locality, have ever visited them, ever shop at them nowadays, use the stores monthly or use the stores as their main grocery shop. Where appropriate we have shown equivalent figures for last year (in brackets in each case).



We can see that there are marked distinctions in the relative performance of the two store groups.

Both are approximately equally well known but Lidl has a much stronger presence “on the ground”, being available as an option to a much wider group of shoppers.

This pattern then cascades to all of the other indices covered in the chart.

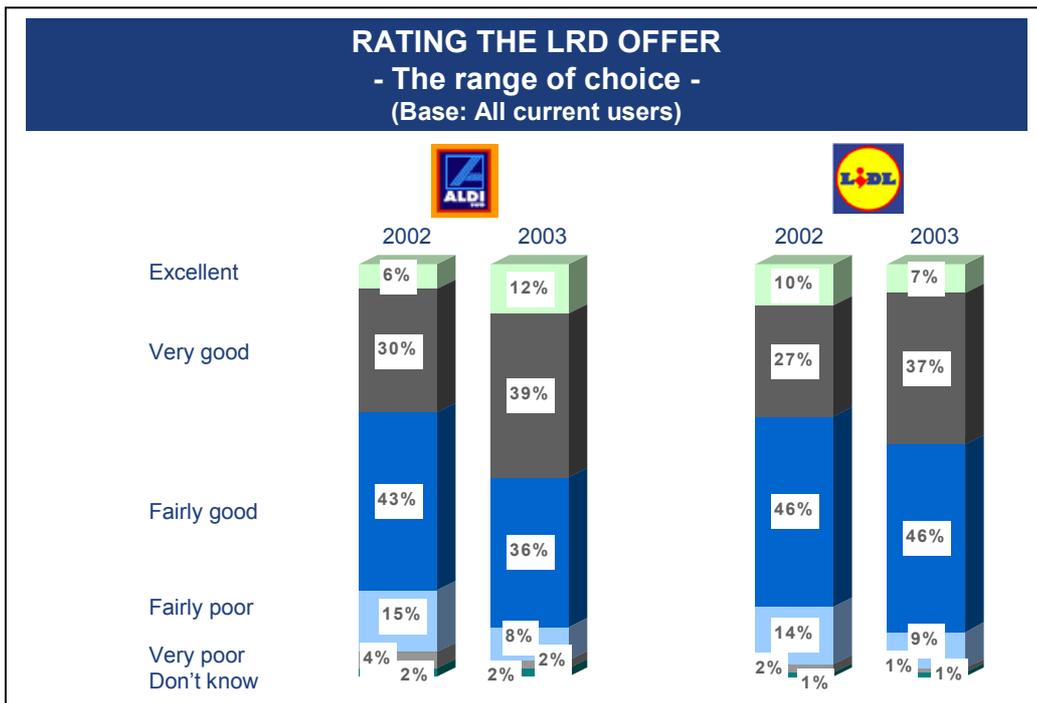
Lidl is now becoming a very strong player in the market place on an independent basis with 30% of all shoppers claiming to use Lidl stores at least monthly and 6% choosing them as their main grocery shop. The growth record of Lidl (comparing last year's figures – in brackets with the current data) suggests a particularly strong period of expansion.

2.7 The Driving Mechanism

Having summarised the gains made by Lidl, in particular, we can now examine the evidence as to the driving mechanism behind those gains.

We suggested, earlier in the report, that perceptions of prices and value are an important element in the appeal of these stores but consumers have come to believe that they offer more than simply that.

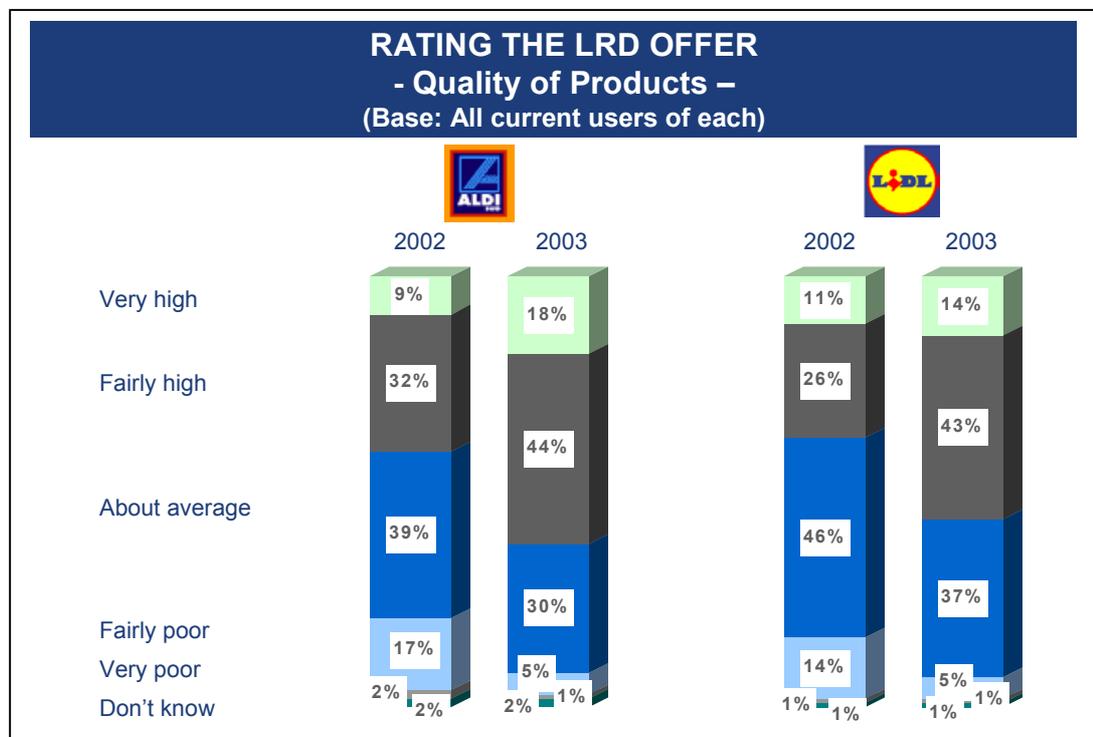
We can see this clearly if we examine current user perceptions of Aldi and Lidl on a number of issues, beginning with the range of choice on offer in these stores:



It must be borne in mind, in examining these data, that the numbers of people who are current users of these stores has increased very significantly, by comparison with last year. Within this expanding base of shoppers we can see a significant increase in the proportion of people rating the range of choice available in these stores as “excellent or very good”.

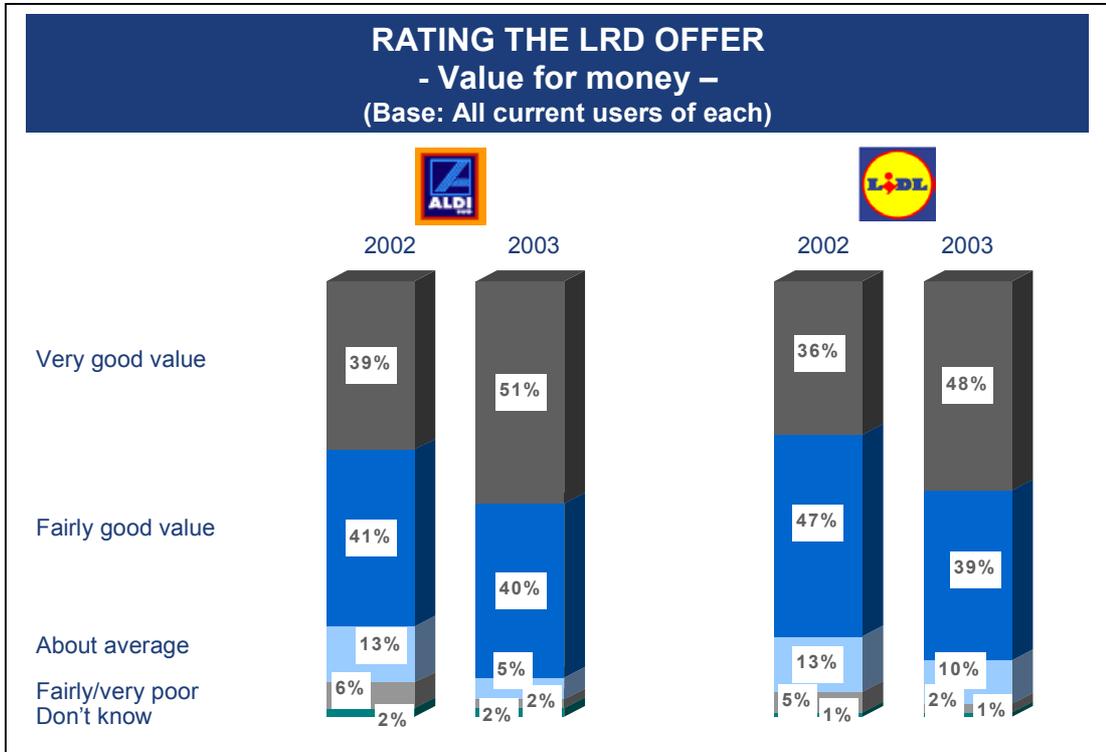
One further interesting point here is that the assessment of Aldi, at the moment, is very similar to that of Lidl: despite the evidence of significant differences in marketplace success. This confirms the evidence of qualitative work which suggests that Aldi and Lidl tend to be bracketed together in consumer consciousness. Whichever store is available locally to the shopper tends to get the benefit of the combined image of the two stores.

Apart from the lift in image for a range of choice we can see evidence of a significant increase in shopper perceptions of the quality of products available in these stores:



Here again, we can see that the current images of Aldi and Lidl in this regard are very similar.

When we shift to the more familiar, and perhaps expected, territory of value for money we see that the image of both stores has gone from strength to strength in the past 12 months:



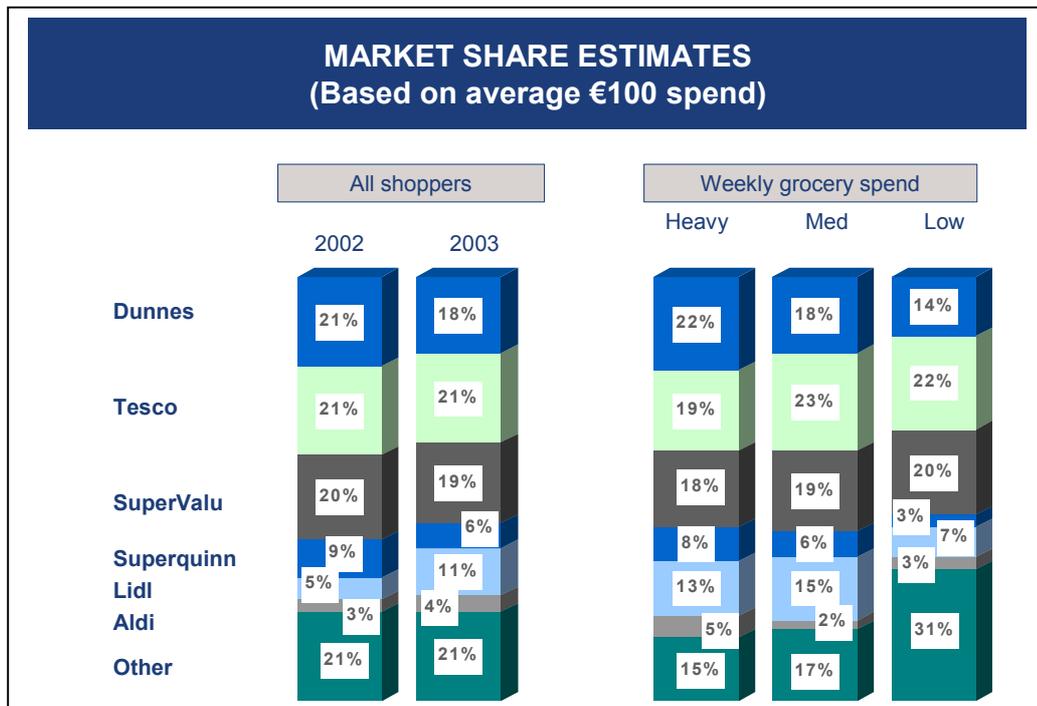
Here again, one must stress that the numbers of people giving these favourable ratings in the current survey are a much larger group than was the case in 2002, because of the increase in the base of users.

2.8 The Bottom Line

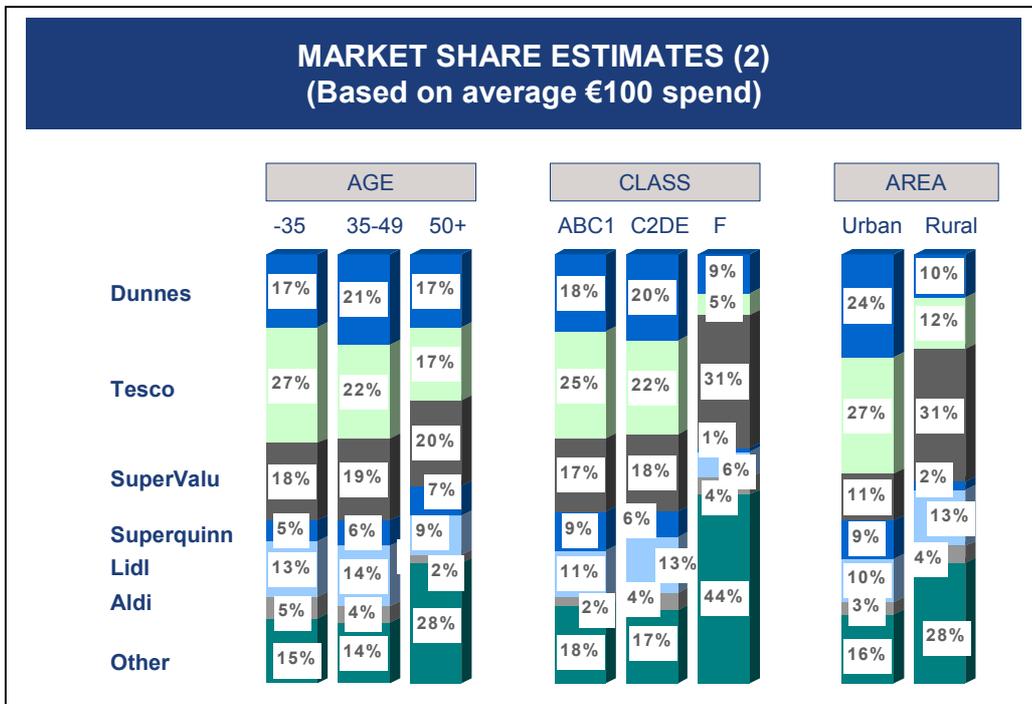
It is obviously impossible to measure pure market share for grocery stores in a survey on this kind. However it is possible to construct a very rough index of the relative strength of the different shopping options from a consumer perspective.

In this survey, as in last years, we asked respondents how much out of typical expenditure of €100, they would spend in each of the main grocery outlets.

The overall pattern produced, is summarised below, and confirms a great deal of the evidence examined earlier in this project.



The advances made by Lidl, and to a lesser degree, Aldi are immediately evident in the chart. It can also be seen that these stores have been relatively more successful among grocery shoppers who spend an above average amount. Reflecting this there are other demographic differences evident, as can be seen here:

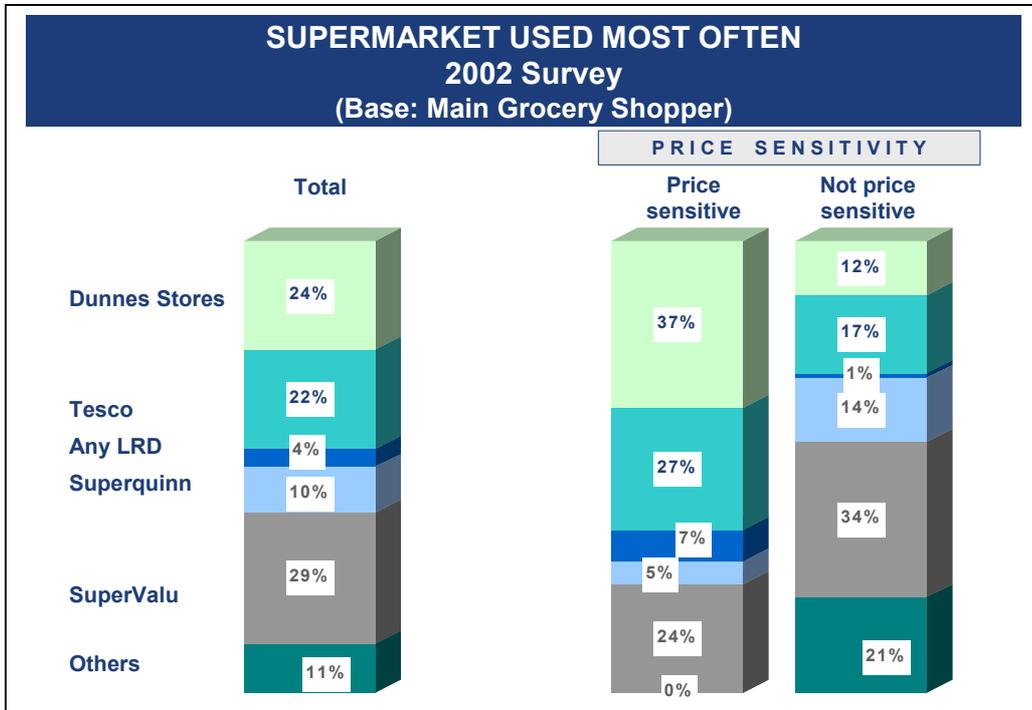


Aldi and Lidl tend to be strongest, in share terms, among younger shoppers, those from working class backgrounds and those in rural areas.

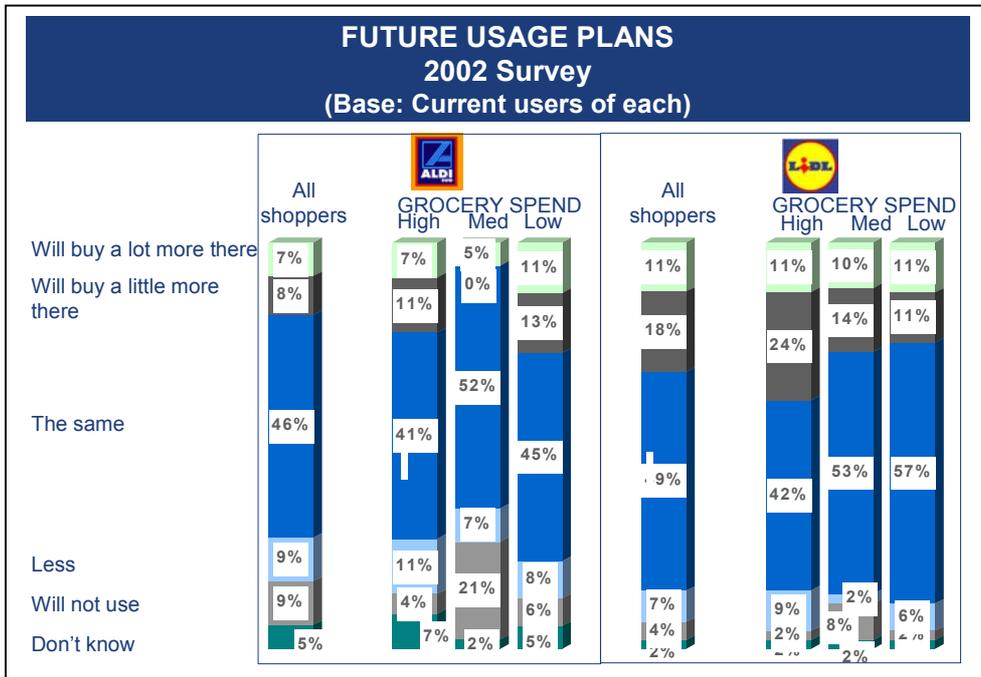
The surprising element perhaps is the strength of the Aldi and Lidl franchise among middle class shoppers (only a few percentage points below their share in the working class segment).

One other interesting point here is the continued strength of SuperValu in rural areas in Ireland. Looking back at the history of Aldi and Lidl, there was a sense in the early stage that SuperValu might prove vulnerable because of the concentration of Aldi and Lidl stores at the outset in small towns and rural areas. Our 2002 report examined this hypothesis and suggested that SuperValu would probably be protected because of the fact that the store values represented by SuperValu were quite different from those of Aldi and Lidl.

We anticipated at that time that Dunnes Stores was most at risk, because they were so heavily dependent on price sensitive consumer as the following chart from that report illustrates:



We also asked in that study to what extent shoppers anticipated using Aldi and Lidl more or less often in the future. The evidence at that stage was summarised as follows:



Based on these data we expected that Lidl would have stronger growth than Aldi in the intervening period and so it has emerged.

We also posed the question in that survey - "who is set to lose most as a result of gains by Aldi and Lidl?" The data at the time suggested the following:



Given the success of Lidl in particular in the last 12 months one would have predicted that Dunnes, Tesco and Superquinn would be the main stores to suffer as a consequence of further gains by them. As we have seen earlier Tesco seems to have managed to avert this and, perhaps as a consequence has put an additional strain on Superquinn.

SUMMARY

- We have gone through a period of intense change
- Irish identity has been significantly altered
- Don't take it for granted that some brands fit and other don't in this new, emergent Ireland.
- Consumers adapt to change, as best they can and in a manner that suits them.
- We live in a period of extended choice and millimetre marketing (small differences do matter).
- The Aldi/Lidl success story is a response to a particular set of circumstances and needs.
- They (Aldi and Lidl) have succeeded by meeting a genuine set of consumer needs in a real and authentic way: one that is more broadly based than many commentators believe.
- Not all consumers want that solution
- The task of the other 'players' is not to ape them
- They need to work with their own particular set of building blocks
- To provide a large enough group of consumers with equally satisfying, but different options.

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