

## Growth Advisory Update – Non low income consumer impact



### *Market Observations and Analysis June 2017*



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## So you don't think higher income shoppers will shop there – *a mistake.*

To date, we have talked through the Day 1 and Week 2 lower income LIDL shopper to understand how they view and shop LIDL. They view LIDL as a place to purchase higher quality (in their minds somewhat aspirational) groceries. They find the shopping experience simple, friendly, and most importantly, tuned to their “affordability needs”. This lower income shopper base will come back to LIDL as they continue to realize the value being delivered per dollar spent.

LIDL in many cases caught their attention and their wallets, both Day 1 and Week 2. As we heard, there was and continues to be some skepticism regarding the LIDL Brand, and that skepticism has changed downward as this shopper group has recognized that they can purchase virtually the same product (in most cases) as a National Brand for half the cost. In our opinion an early stage LIDL “trust factor” developed and at least from our follow up interviews, is in play going forward.

However, we did not just see low income shoppers at LIDL on Day 1. There were Mercedes, Lexus, and BMW vehicles in the parking lot amongst Chevrolet, Ford and a number of Japanese made car brands.

72% of America (from our regular shopper income research) is struggling. Even with the current “market euphoria” disposable income has not risen. Of this 72%, 40%+ falls into what we call middle income (\$50K - \$99K). Just as the lower income shoppers are, this middle income group is disposable income starved. They were also at the Grand Opening of LIDL – and will come back as they try to make ends meet in their households.

And the higher income families were also there, those households making over \$100K per year.

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LIDL's market entry was different in the US than in other markets they entered. In the pre-launch and launch activities they realized that positioning themselves as a "lower-priced/higher quality" grocery store rather than a "no-frills discount grocer" opened up the shopper base from only low income to almost all income levels. For most of the American shopper base disposable income is driving purchase decisions – both product as well as banner.

LIDL's market pledge is to "rethink grocery", fully supported by a combination of quality, convenience, and value. They strive to have shoppers think of them as a unique value proposition in the market – *your neighborhood store, supporting local suppliers, hiring your neighbors, and making you feel the **store works for you as hard as you work for yourself.***

Their three major initiatives are seamless and designed to make every shopper who enters the store feel like the store was built for them:

- **Quality**—a limited (it's all about the basics) assortment focused on private label. LIDL prides themselves on their quality. LIDL has invested significantly in consumer research to understand the taste and eating preferences of the American consumer. They designed their US private label portfolio to match or slightly exceed National Brand quality at half the price. Their quality control initiatives are exhaustive and proven to be impactful in numerous previous market launches. Expect the LIDL private label juggernaut to continue. Shoppers will continue to try new categories as their trust in the LIDL Brand continues to grow.
- **Convenience** – only six aisles with a carefully managed assortment, providing quick and easy shopping. The best way to describe their convenience offer is characterized by three simple words – "EASY, EXPERT, and FAIR". During the first two weeks shoppers found the in-store experience very simple to navigate – everything from aisle layout to signage delivering the price-to-value relationship of choosing the LIDL Brand over the National Brand.
- **Value** – the value statement offered to and realized by shoppers was "prices up to 50% less than comparable competitor products". What shoppers realized was both the ability to purchase more while at the same time splurging a little.

The Quality, Convenience, Value banner promise was highlighted throughout the entire store with exacting consistency, further supporting shoppers' decision to "try and trust".

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Let's go back to the non low income shopper to walk through why they were at LIDL.

Middle income shoppers found LIDL both a treasure trove of values plus a place to shop for unique and/or aspirational items they might have previously left out of their baskets due to price. By saving nearly 50% on everyday household food, beverage, and non-food items, two things occurred:

- This middle income shopper realized that they could spend their dollars more wisely – they did not have to go to multiple stores to find the best deals; they did not have to go through exhaustive categories and aisles to shop; and they simply made choices based on the value they thought they would get with each item they selected – A TRULY SIMPLIFIED SHOPPING EXPERIENCE.
- This “freed up” cash to either purchase a few higher end aspirational items, shop in the general merchandise “Surprise” section of the store, or simply walk out the door feeling that they got a lot more for a lot less. An interesting result: both the shopper and the banner won, with the shopper spending less and getting more/better quality; and, the banner acquiring a new shopper.

The middle income baskets were relatively full with 30-50 items, suggesting a weekly stock-up trip – at roughly half the cost.

The higher income shoppers behaved differently as they shopped at LIDL. More premium items along with greater quantities of the same item. It would be fair to say that a number of the higher income baskets looked a lot like a CLUB basket – large quantities of paper towels, sodas, center store items, etc. It is possible that we observed the beginnings of a CLUB trip at LIDL. Baskets were fuller than middle income, contained more specialty items, and more items in bulk.

### **Key considerations for Retailers:**

LIDL, as it is positioned, will attract shoppers of all ages and income groups. Their value proposition is clear and well understood, and will not change week to week.

For those Retailers who believe LIDL will not make an impact to their shopper, they may want to reconsider that position. For the first wave of stores, the LIDL impact will be relatively small. However, they are starting a trend on quality, convenience, and value not currently offered in the US market.

It is critical for Retailers competing against LIDL to fully understand the changing LIDL shopper – not that the shoppers themselves will change – instead, understanding trip and category spend migration to LIDL.

Finally, Retailers are going to have to “up their game” in their own banner experience. Whether it be through improved in-store service, innovation in the store perimeter, rethinking omnichannel strategies and/or investments, or accelerating innovation in private label, actions must be taken in order keep shoppers loyal to a given banner. Price-only actions will not win against LIDL.