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Report Name: COVID-19 Dethrones Third Largest Food Retailer and Ignites a Price War

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Report Highlights:

COVID-19 had an unexpected effect on the Spanish food distribution sector. Spanish consumers spent $3.7 billion more at supermarkets compared to 2019. Changing consumer patterns in 2020 disrupted the long-historic ranking of the top three food retailers in Spain (Mercadona, Carrefour, and DIA). Retailer Lidl replaced DIA as the new third ranking retailer. Flooded with an unprecedented number of customers in this new post-COVID scenario, supermarkets in Spain are now fighting to obtain a larger share of customers with some chains starting a price war that is expected to continue in 2021.

COVID-19 Shakes Long-standing Retail Rankings

In 2020, adhering to confinement measures and movement restrictions in response to COVID-19, Spanish consumers spent $3.7 billion more at the supermarket than in 2019, according to recent data published by Nielsen. In addition, the closure and gathering restrictions in bars and restaurants transferred consumer spending on food and beverages to consumption at home. As a result, during 2020, total expenditures in food and beverages grew 6.4 percent to roughly $115 billion. This is a very notable increase for a traditionally stable sector. The volume of purchases also grew 4.4 percent, as did prices in some product categories, such as fresh food prices, which increased 5.5 percent while packaged food prices grew 0.4 percent.

Mercadona continues to be the prominent and solid leading retailer in Spain, accounting for 24.5 percent of total sales, far outperforming other trailing retailers. However, last year, Mercadona lost ground for the first time in twenty years and had the biggest share loss of all chains, losing 1.1 percent of the market. Carrefour remains the second major player, with 8.4 percent of the market share, but down 0.3 percent. Despite recovering buyers, Carrefour was impacted by the poor performance of the hypermarket channel, primarily during times when consumers faced the greatest mobility limitations.

Those retailers with a more aggressive price strategy are winning ground, particularly Lidl, who started 2020 in third position holding 6.1 percent of the market, up 0.5 percent from the previous year. As a result, retailer DIA fell to the 4th position, with 5.8 percent of the market, losing 0.6 percent.

Source: Kantar
*Regional chains do not include Eroski/El Arbol

Traditional clients of Mercadona, Carrefour, and DIA have lowered their loyalty to these brands and have diversified their expenditures. Mercadona was likely impacted by the lack of proximity to stores in some regions during confinement, as well as initial problems meeting all online requests during the first weeks of the strict national lockdown starting in March 2020.

This year, Carrefour is betting on consumers' preference for proximity with the purchase of Supersol. The French group will acquire 172 Supersol supermarkets, located mainly in Andalucia and Madrid. The company intends to convert them into proximity formats such as Carrefour Express, Market and Supeco. Through this operation, Carrefour consolidates its position as second food retailer in Spain by diversifying its store base and reinforcing its presence in growing formats. According to local media, Carrefour expects to definitively close the purchase during the first half of this year.

DIA, who benefited greatly during the first wave of the pandemic, thanks to their wide network of proximity stores, plans to recover its position, although it may take some years. The company has the highest number of stores - exceeding 3,000- and has continued to close establishments. As part of its strategy, it has reinforced electronic commerce during the pandemic.

With the saturation of online channels and the government-mandated movement restrictions, regional supermarket chains, such as Consum (Valencia), Dinosol (Canary Islands), Gadisa (Galicia), Bonpreu (Catalonia), Ahorramas (Madrid), BM (Basque Country), among others, were well-positioned and have multiplied their sales, reinforcing their market share in a sector typically dominated by large operators. Regional chains increased their market share 0.5 percent to 14.2 percent. The increased weight of regional chains in Spain during the pandemic is a unique phenomenon in the European region (See latest Retail Report).

In addition, according to Kantar, it is interesting to note the behavior of traditional markets and specialized trade (fruit, fish and meat), which retained 19 percent of the market and halted the progressive decline experienced over the last five years.

Furthermore, two new players are entering the market: Mere and Amazon Fresh. The U.S. and Russia giants landed in Spain with two very different models. Mere does not have shelves, counters or clerks. Everything is sold from pallets or boxes in a format known as 'no-frills,' focusing on austerity, discounts, and bargains. On the other hand, Amazon Fresh's strong points are know-how and network, offering luxury, speed and convenience as world leaders in home delivery, a sector clearly expanding in Spain.

Spanish consumers have made the most of the wide range of options available in the market adapting to the sanitary and health situation at different times of the year. The year started reinforcing the 'short assorted' stores, reaching 37.6 percent market share during pre-COVID times. As a result of confinement measures, consumers valued proximity, the market share of regional supermarkets rose to 26.2 percent, as well as convenience, that pushed ecommerce to finally rise and hold 3.1 percent of the market. In the de-escalation of restrictions, traditional markets and the specialized channel recovered to 20.1 percent. Finally, during the Christmas season, hypermarket, and cash-and-carry showed the best performance, reaching 15.4 percent of the market.

Spain's third wave of the pandemic broke after the Christmas holiday, making January and February the worst months of the pandemic in the country. This situation once again intensified restrictions on consumer consumption away from home. Thus, at least for the first half of 2021, the growth trend in retail is expected to continue building on the trend started in late 2020. The frequent changes in restrictions and the uncertainty of the pandemic's evolution, the consecutive waves, and the delays in vaccination will demand retailers and manufacturers increase their efforts to continually adapt to these changes in consumer behavior.

At a moment when each act of purchase is more valuable than ever, consumers choose among all the available options, and the winning formulas are those that not only appeal to physical proximity, but also create a bond with the consumer. This balance between good prices and consumer fidelity will mark the strategies and successes for retailers in 2021.

The Retail Price Wars Begin

Under this scenario, experts predicted a new price war between supermarket chains and the data is starting to show that trend. This war, that has so far passed unnoticed, is a battle over the money consumers are more consciously spending in supermarkets.

Lidl and Aldi made the first move. The first to hit was Aldi, whose products are branded in 86 percent of the 2,000 references it handles. Aldi pushed prices down 0.75 percent compared to 2020. Lidl followed immediately, announcing up to 50 percent discounts on 15 percent of their products. More recently Carrefour, Alcampo, Eroski and Supercor followed, with a less aggressive strategy, but joining the trend of pushing prices down in specific categories and consumer loyalty programs. In the meantime, Mercadona is holding off, at least for the time being.

Experts indicate that Mercadona's strategy seem to be more focused to recover the share in fresh produce sales, developing the takeaway food sections and store expansion across Spain rather than lowering prices. In 2008, during Spain's last hard-hitting economic recession when Mercadona used the price strategy to gain market share, there was no direct competition like the one Lidl and Aldi pose today. The German chains are more accustomed to the hard-discount environment.

There are two main reasons behind this unexpected effect. First on the consumer side, customers are facing economic difficulties due to the shrinking economy and the Temporary Employment Regulation Expenditure (ERTE) program that suspends one or several employment contracts for a specific period of time, which is currently affecting thousands of workers. Second, on the business side, retailers are fighting to increase or recover greater market share. Retail sales growth in 2021 is expected to remain strong. As a percentage, it will be lower than in 2020, but volumes will continue to be much higher than those in 2019.

According to Kantar, this price war can already be noticed in how the sector is re-adjusting. Although the trend is currently centered in promotions and discounts and limited to certain categories and products, a general price war would erode the margins of manufacturers and distributors. Kantar anticipates a slowdown in the opening of supermarkets in Spain for the next few years and warns on the risks of a general price war in the sector, which will harm the added value gained in recent years, particularly during the pandemic.

Attachments:

No Attachments.