



# Pricing and Promotion in Europe

## FMCG Industry at a Tipping Point

**July 2013**

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## Introduction

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Rarely do manufacturers and retailers have access to such in-depth Europe-wide market analysis as that provided by the **IRI European Price and Promotions special report**.

IRI helps FMCG marketers make sense of the changing shopping environment and this latest research details the crucial role price and promotion is playing across nine key food and non-food categories.

It shows clearly how stores and suppliers across seven countries are struggling to retain sales volumes despite increases in promotions.

Each country studied has its own specific challenges to deal with but what is common among them all is that the European shopper is used to promotions after five years of economic gloom. Brand and store loyalty is being eroded as consumers remain in control.

Manufacturers are losing patience with expensive trade promotions that are not bringing the volume rewards they used to.

The UK is seeing the growth in trade promotions slow, while German shoppers are unhappy with big price rises. The margin war between manufacturers and retailers is particularly fierce in France while consumer spending remains incredibly tight in Spain, Greece and Italy with sales volumes flat in the Netherlands.

This report provides FMCG marketers with invaluable insight so they can react effectively to the longest economic downturn for a generation and the change in shopping habits it is bringing.

A handwritten signature in black ink, appearing to read 'Tim Eales'.

Tim Eales  
Strategic Insight Director  
IRI

## Executive summary

### IRI European Pricing and Promotion Special Report 2013

confirms that food and non-food prices continue to rise – although the rate of increase is slowing as consumers vote with their feet and spend more time hunting for bargains.

Average prices increased by 1.8% across Europe, with food prices (up 1.9%) accelerating faster than non-food (1.1%).

Up until 2012 promotions were proving crucial to sustaining volumes but this is no longer the case. The volume of goods on any promotion was up by 2.7% yet volume sales dipped by 0.1% across Europe. Food volumes rose just 0.1% but non-food fell by 1.0%.

Promotions across Europe are at a tipping point for national brands and for private label (PL).

Consumers, squeezed by austerity measures are cutting back in perceived non-essential categories such as household and personal care and manufacturers must respond.

The personal care category had the biggest year on year increase in promotions, up 7.0% with household up by 4.4%. The average across all categories was 2.7% with non-food up 4.9% overall.

### Promotions are failing

Personal care and household are the only two categories surveyed

where both sales volume and value are falling.

Food and non-food promotions are not working in the way they used to and manufacturers are reacting by reassessing their trade promotion strategies to regain some of their margin. Retailers need brands to continue to fund in-store offers to attract and retain footfall.

Across Europe brand owners including, for instance Heineken and Procter & Gamble are reassessing their long-term trade promotion strategy even if it means their sales might suffer in the short-term.

We are seeing value and volume rise in some categories.

Confectionery saw the greatest value sales rise, with pet care leading the non-food charge. Pet food saw the highest jump in volume despite being the only category to see a decline in promotions.

Food sales are driving value growth across Europe.

### Promotions reach tipping point

The UK has traditionally had the highest level of trade promotions, and although it remains the highest in Europe there are signs the number of promotions are starting to reduce.

### Some promotions still work

The promotions that do work are clear and simple for shoppers to understand and have a real perceived value. These include the increasingly popular offers linked to fuel and round pound/euro pricing which helps shoppers to budget.

Ultimately consumers remain in control and more shoppers are making lists or using a price comparison website. Retailers are also under pressure to improve the shopping experience to really engage with shoppers.

In tough times, utilising price elasticity can play a big role in boosting sales volumes.

Nevertheless, 2013 will continue to be a challenging year for FMCG manufacturers and retailers but new paths for growth can be identified if the two sides work closely together.

### Country summaries:

- **Spain:** Consumer spending has been significantly reduced as the economy continues to struggle and unemployment rises. Retailers are proclaiming their commitment to long-term low prices but volume sales have started to decline. There is more pressure to promote with intense activity in the hypermarkets as local supermarkets gain share. The top 10 retailers now account for 86% of sales.

## Executive summary

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- **France:** The margin war between manufacturers and retailers is fierce in France where shoppers now prefer immediate discounts rather than promotional leaflets to cut the cost of their shopping. French shoppers are using promotions to control their spending and are less loyal to particular retailers. The money they save enables them to keep buying their luxuries.
- **United Kingdom:** Conscious that consumers vote with their feet in tough times, retailers' marketing messages have centred on price comparisons and reassuring consumers they do not need to shop elsewhere to get the best deals. Trade promotions are up year on year but the rate of growth is slowing. There has been an increase in 'money off your next shop' vouchers and extra reward points to encourage loyalty.
- **Germany:** Prices are rising faster in Germany than anywhere else in Europe apart from the UK, but strong retail competition means stores and manufacturers can only pass on part of the increase to shoppers. Germany experienced falling volumes in every category surveyed across food and non-food but has the lowest level of trade promotions of all the countries.
- **Greece:** Bullish investors are ploughing money back into Greek markets but for shoppers the economic situation remains dire. Greece is suffering a deflationary spiral with prices down considerably as stores and suppliers struggle to retain volumes. There is a retail price war being fought with highly aggressive trade promotions and discounting.
- **Netherlands:** As unemployment and inflation rises in the Netherlands, consumer confidence is in decline. The result has been more emphasis on PL and more promotion by national brands in response. Price promotions still dominate but the discounts are getting deeper. Many manufacturers have tried to push through price rises.
- **Italy:** Inflation is falling in Italy which is boosting consumer confidence slightly, although consumer spending remains tight. Italian shoppers are very attentive to promotions and will make purchases where they see good deals. Retailers and manufacturers are running more frequent promotions and offering deeper discounts.

# Turning key insights into actions

## INSIGHTS

**Prices rising** - Average prices increased by 1.8% across Europe with food prices (up 1.9%) accelerating faster than non-food (1.1%).

**Food is driving sales growth** across Europe.

**The volume of goods on promotion is rising but promotion fails to impact volumes.**

**Promotions with purpose** - The promotions that still work are those that are clear and simple for shoppers to understand and have a real perceived value.

**Non-food declines and shoppers prioritise** - Across Europe consumers are buying essentials such as food but purchasing less of those items they perceive as not so vital, such as personal care and household products. These two categories remain the most heavily promoted.

**National brands are reassessing their trade promotion strategies** to improve their ROI.

## ACTIONS

Manufacturers must assess optimal price strategies by brand and category to maintain margins and market share, using sophisticated price and promotion elasticity analysis.

Shoppers do not think in categories - they think about their relevant needs. The industry needs to move to a shopper-centric model and optimise all their resources. This means having the right products in the right place at the right time.

There are opportunities for volume and value growth through well-targeted propositions that can be accessed by those consumers for whom the recession remains mostly someone else's problem.

Get a clear view of what is influencing each shopper's shopping trip, not only to gain market share but to generate loyalty.

Retailers and manufacturers must work together and invest to define specific merchandising strategies with specific tactics to create impulse purchasing on non-essential items, creating occasions 'for special treats' at a reasonable price.

Be very straightforward on the promotion strategy. Set goals and get appropriate analytics solutions to simulate price and promotion to improve your margins, revenue, category and your competitive advantage.

# Turning key insights into actions

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## INSIGHTS

**PL has increased its market share** in every country except France and the UK with the biggest rise coming in Germany.

**Shoppers spend time planning** - More shoppers are spending time planning their shopping trips. This includes making shopping lists or using price comparison websites to find the best value basket. Consumers are less loyal to specific brands and retailers.

## ACTIONS

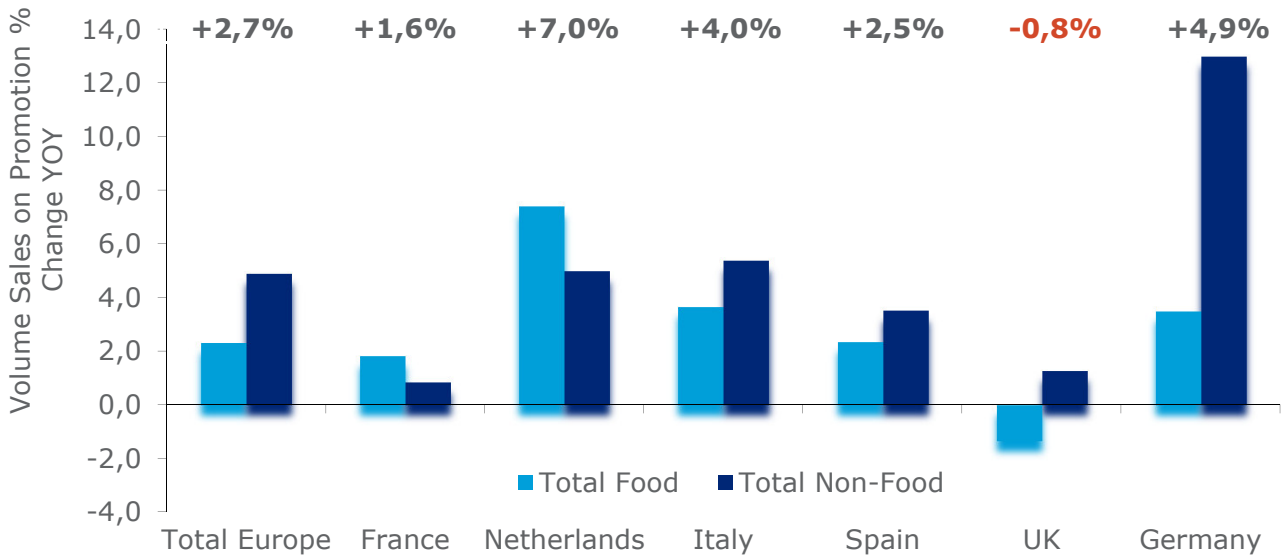
Manufacturers must assess the competitive risk in each category from private label growth and adjust their portfolio and retail approach.

Retailers and manufacturers must work together to define specific merchandising strategies for online shoppers with specific tactics to create impulse purchasing.

# Promotion in crisis

## Volume Sales on Promotion Evolution in Europe

% figures show total market YOY changes



**The non-food category sees a higher increase with the exception of France and the Netherlands. The countries with the strongest increase of promotional support are the Netherlands, Italy and Germany, while the UK sees a decline.**

### Promotion in crisis

There is hard evidence that promotions are not working in the way they used to and manufacturers are fighting back in a desperate attempt to regain some of their margin which has been gradually eroded since the economic downturn began in 2008.

There has been a 2.7% increase in volume on promotion across Europe, yet volumes are dire. Up just 0.1% for food and down by 1.0% for non-food. Over the same 12-month period average prices have increased by an average of 1.8%, up by 1.9% for food and 1.1% for non-food.

The FMCG industry is at a tipping point with manufacturers and retailers at odds over how to sustain and grow volumes as

consumers expect deals and actively hunt them out.

The margins battle is something retailers will fight fiercely to win because they need manufacturers to continue to pay for trade promotions to drive footfall and retain increasingly fickle shoppers.

However, the current situation is unsustainable for many manufacturers who cannot be squeezed much further in terms of funding promotions. They are beginning to analyse their trade promotion activity to find ways to get a more attractive ROI for less marketing spend.

Manufacturers in many countries complain they must offer deep discounts to participate in themed promotions and drive penetration of new products.

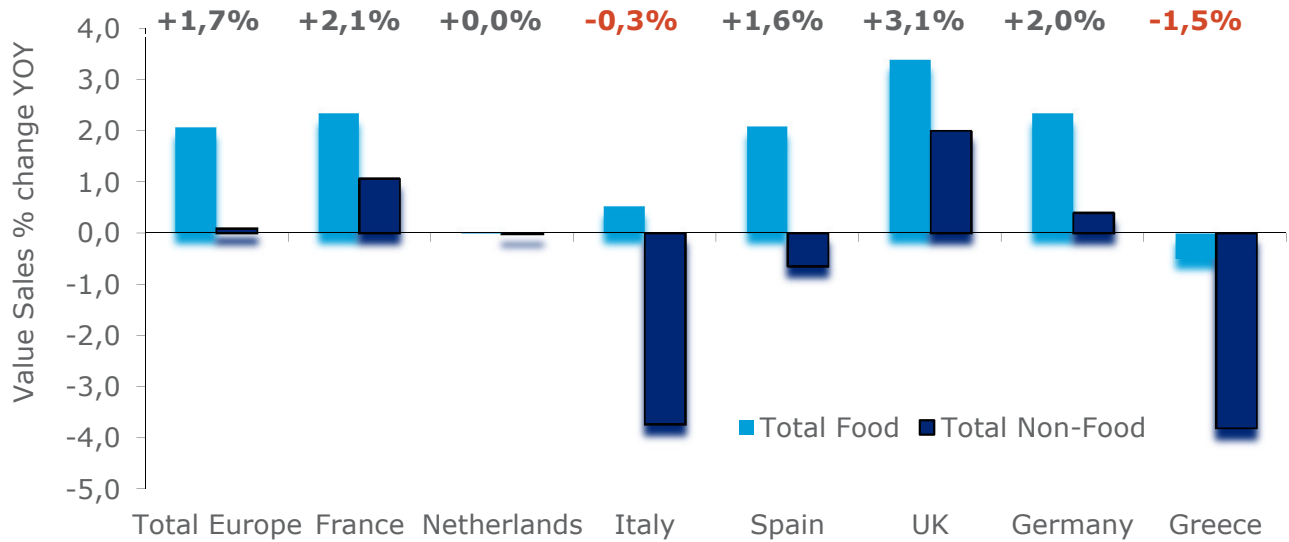
Manufacturers in the Netherlands acknowledge promotions have been largely ineffective but they worry about losing market share if they are the first ones to blink in this battle of wills with retailers. However, there are early signs in the Netherlands that some suppliers, including Heineken, are willing to reduce the pressure to promote so heavily. The alcoholic drinks category saw a 6.7% increase in volume on promotion but this will be hard to sustain through to Christmas.

Brands on promotion benefit from a short-term sales hike which boosts volumes. Yet this can harm the health of whole categories as shoppers are more likely to switch stores to find the best value basket.

# Promotion in crisis

## Value Sales Evolution in Europe

% figures show total market YOY changes



**Value growth across Europe being driven by food categories – value sales typically increasing by 2% year on year but Greece has been declining. Non-food Value Sales have decreased significantly in Italy and Greece.**

Shoppers may expect to see price differences between national brands and PL, but they expect an equal level of quality. As retailers invest more in growing market share for their own label products it is putting even more pressure on national brands to promote.

In Italy there is also a debate raging over the impact promotions are having on manufacturers as deals fail to sustain enough incremental sales. Many categories are growing only through non-profitable sales. Promotions in Italy were worth about €3.7bn in food and beverage during 2012 the survey period and this saved grateful Italian families an average of €150 each.

Germany has the lowest level of trade promotions across all

categories but volumes are stagnating here too as food prices rise by about 2.4% - the greatest increase across the countries surveyed after the UK. Germany traditionally has the lowest prices so shoppers quickly notice these more obvious price hikes. They have responded negatively, with food volumes down 0.4% and non-food by 0.5% despite a 5.0% increase in promotions.

In the UK the volume on promotion is down 0.7%, the first decline ever. The development of EPOS in the UK has made it possible to run a number of promotions concurrently and to change them frequently, but the amount of rebate paid to retailers for passing on 'free' items as part of a multi-buy is entirely in the retailers' hands. Any more

pressure on volumes could mean the worst-affected national brands feel compelled to run even more promotions which they will struggle to afford. The cost of price reductions in the UK is a staggering £13bn on packaged groceries alone.

The high level of brand promotions in the UK is holding back PL growth and as a result many retailers have reduced their trade promotions. This is allowing prices to rise faster than the average and rewarding retailers with more money from each PL item sold.

PL share has increased in all countries except France and UK but has started to slow down in Spain, although it's still accounting for 43.3% of the market value.

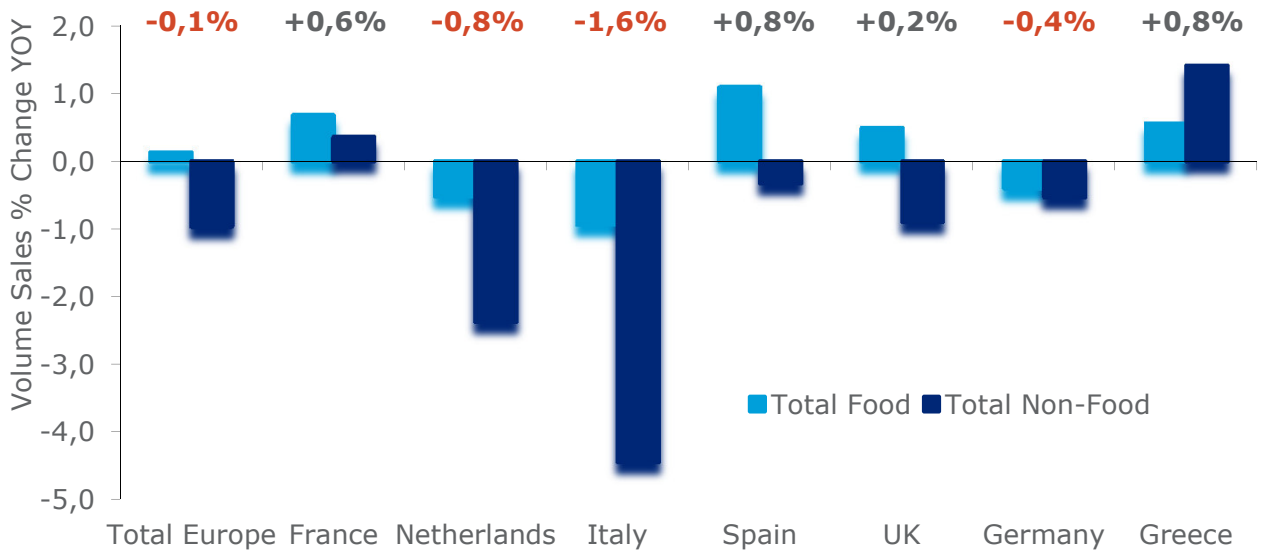
During 2013 retailers and



# Consumers still in control as prices increase

## Volume Sales Evolution in Europe

% figures show total market YOY changes



**Average food volume sales are showing a small increase at a total European level.**

Manufacturers need to work more closely together to analyse which promotions actually work better for all parties not only with a short term perspective but for the benefit/value of different categories for the long-term.

What is clear is that promotions that work are those that are clear and simple for shoppers to understand and have a real perceived value.

These include those offers linked to fuel, particularly popular in the UK, and round pound/euro pricing which helps shoppers to budget. Also, buy-one-get-one-free or three-for-two multi-buys remain popular.

### Consumers still in control as prices increase

From wheat and corn to sugar and cocoa, rising raw material and fuel costs are pushing up the price of the weekly grocery shop for European shoppers.

Prices are also rising as manufacturers look to claw back margin, yet consumers remain in control. They have had to adapt to living with austerity measures, job insecurity and unemployment in an environment where grocery prices are rising faster than wages.

GDP across Europe has fallen each quarter for the past year (with Germany bucking the trend) which means retailers must work harder to engage with shoppers. Consumers are not afraid to make some tough

choices between what they regard as essential food items and less urgent non-food items, particularly within the household and personal care categories.

The reality is grocery prices are not going up as quickly as manufacturers and retailers would ideally like them to. Yet 2013 is predicted to be another year of high price inflation which could further hit volumes in food and non-food.

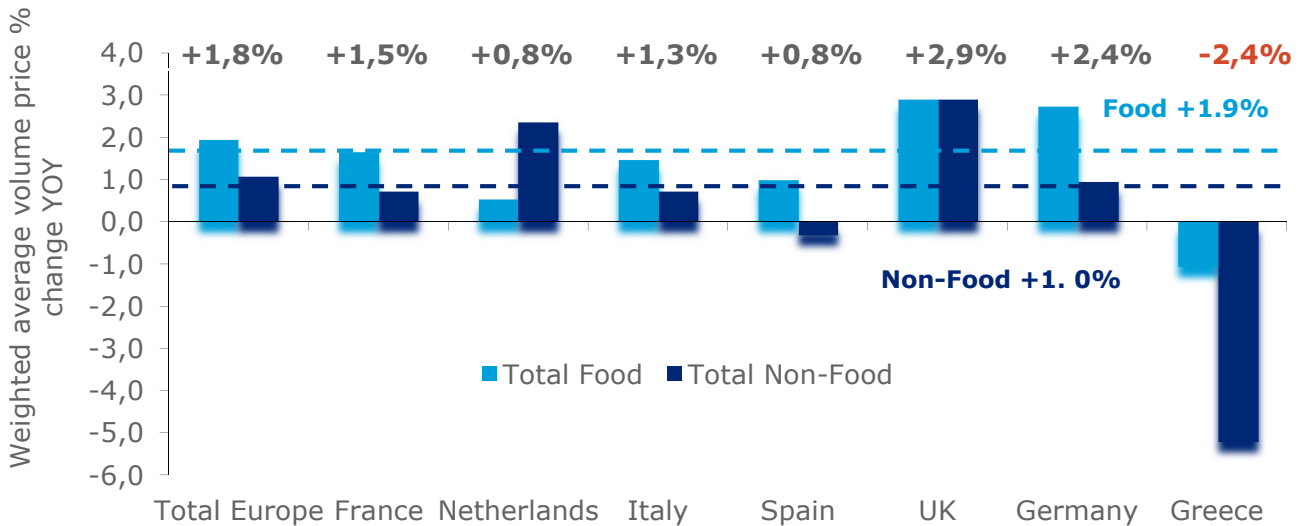
Manufacturers and retailers need to increase the number of store visits shoppers are making and increase the amount they spend when they are there. They must improve the in-store shopping experience for shoppers.

More use of experiential marketing will cheer up consumers fed up with continually having to make their

# Consumers still in control as prices increase

## Price Evolution in Europe

% figures show total market YOY changes



**Average prices increased by 1.8% across Europe last year. Food prices accelerated faster than non-food prices in most countries. The highest price increases were seen in the UK, while the lowest ones observed were in Greece.**

budget go further. Ideas being employed by stores already include themes to promote particular categories, better shelf signage and advice on how to enjoy products, such as recipes.

In the UK Tesco is revamping stores instead of developing new ones, while in France, Casino is providing customers with an app that helps them track the cost of their shopping as they travel around a store. Retailers also need to think about their product and brand assortment to get people to spend more time and money in their stores.

Shoppers appreciate value for money and can still be swayed by promotions in-store. Personalised offers will become increasingly important to shoppers as retailers make more use of mobile technology.

People are not only looking for in-store promotions on the shelf, but are spending more time preparing to shop. They are writing shopping lists, collecting leaflets, using online coupons, visiting retailers' websites and using price comparison websites to find discounts.

In France many people will read different retailer promotional leaflets at home before deciding where to spend their money.

Shoppers are using trade promotions cleverly by switching between brands that are on offer at different price points. For example, they could switch from fresh fish to canned fish to save money.

According to the IRI European Shopper Survey in-store paper leaflets still play a key role in many countries. Across Europe

69% of shoppers say they are a leading source of information but only 20% in the UK agree.

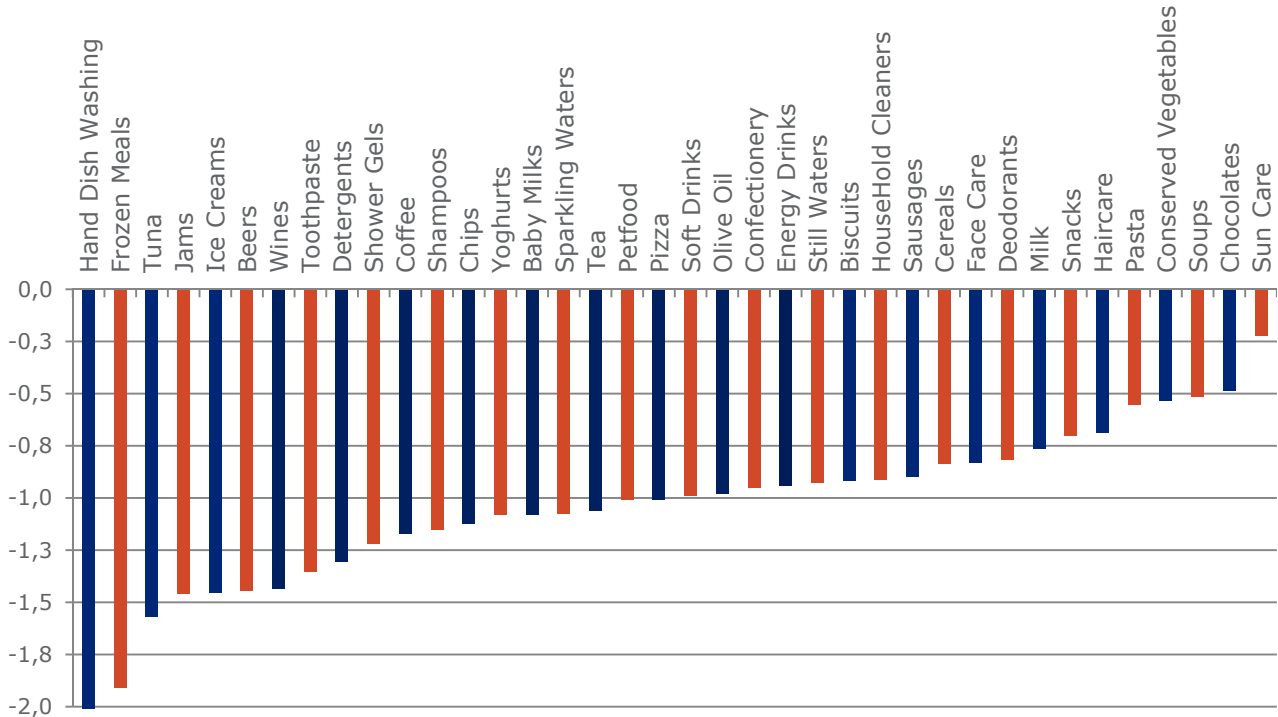
Manufacturers are responding to consumer demand for smaller pack sizes. This 'buy-it-when-I-need-it' approach to shopping is a coping mechanism that helps shoppers to keep within their budgets for each single shop. They want to take advantage of offers but do not necessarily want to spend more now buying larger pack sizes that offer volume discounts.

In the Netherlands shoppers are trading down, especially on basic products, with the result that PL items are growing in many categories as the hard discounters increase their market share.

Retailers and brands that can tick the convenience box will

# Consumers still in control as prices increase

## Base Price Elasticity Across Category - Europe



Average for 1% price increase.

also appeal to shoppers.

Lower prices will always bring in shoppers. In France, food inflation fell gradually during 2012. The result was a 0.6% increase in volumes sales across food and non-food. Compare this to Germany where shoppers have reacted badly to the highest average price rises in Europe, up 2.4%, which led to a fall in overall volumes of 0.4%.

In tough times when consumers are in control, utilising price elasticity can play a big role in boosting sales volumes. Hand dish washing and frozen meals are the most sensitive in price changes as opposed to sun care and chocolates which are less responsive to price fluctuation.

The category showing the

highest average price rise was alcoholic drinks at 3.3%. This was way ahead of the food average (1.9%). It resulted in a 0.5% drop in volumes across the continent. Pet care saw the highest average price rise at 2.3%, more than twice the non-food average (1.1%). Yet shoppers still love their pets as volumes rose by 0.6%.

Personal care was the category which really struggled to push through price rises (up only 0.7%) as shoppers felt they could do without certain products in these tough times.

Multi-channel shopping is appealing to more and more shoppers across Europe. For instance, in Spain internet and online promotions are becoming

stronger channels to connect to the shopper. The online shopper has a different profile, specific needs and a higher income. They are also more likely to buy national brands although retailers are making their own label items more prominent.

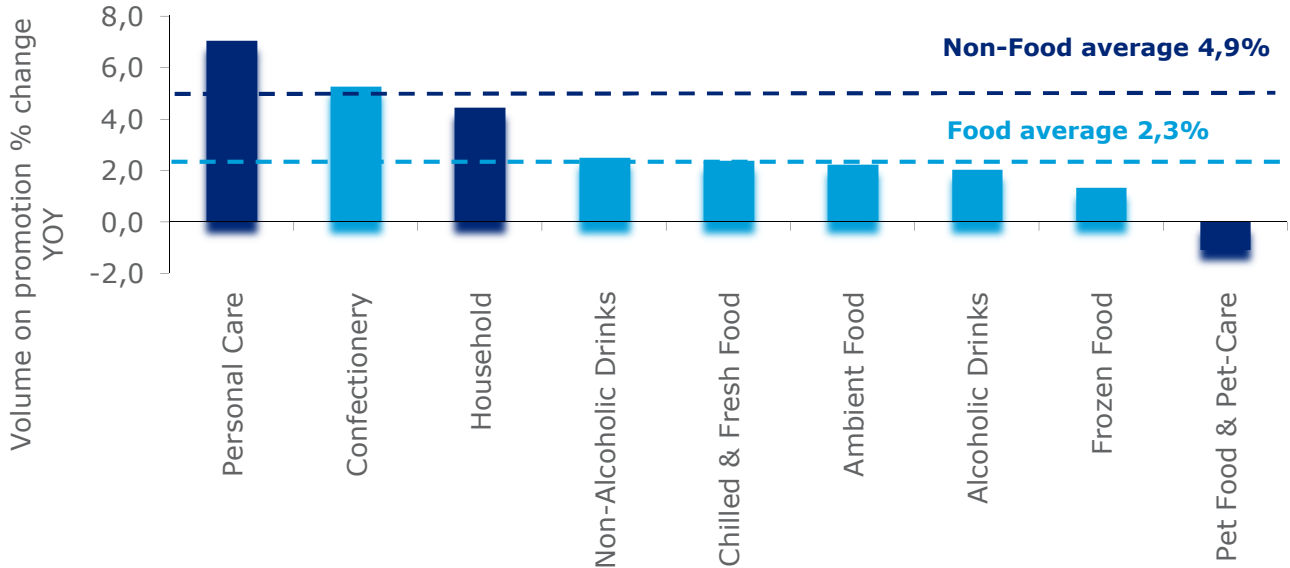
### Non-food flounders despite promotional intensity

Non-food categories are still suffering from the perception among many European consumers that they are non-essentials when money is tight, hence the heavy level of promotion to boost and retain sales volumes.

Personal care had the biggest year on year increase of volume

# Non-food flounders despite promotional intensity

## Volume Sales on Promotion - Trends by Category in Europe



**Personal care had the biggest year on year increase of volume on promotion, up 7% on last year followed by household, up 4.4%.**

on promotion, up 7% on last year followed by household, up 4.4%.

Yet these offers had little effect as volumes in personal care fell by 1.1% and value sales by 0.4%. Household suffered even more in volume sales, down 1.3%, despite increases of between 5%-13% in the volume on promotion in some countries such as Germany, France, Netherlands and Italy.

Across Europe, non-food saw a 4.9% increase in volume on trade promotion and, despite the flurry of promotions and attempts to be innovative with offers, sales volumes for non-food overall were down by 1.0%.

Now manufacturers such as Procter & Gamble are beginning to question the effectiveness of expensive trade promotions after

five years of margins being squeezed.

The volume on promotion for food was up 2.3% in the year with confectionery the most promoted category, up 5.3% as suppliers and stores tried to convince shoppers they should in fact indulge themselves as well as their pets. More promotions were also needed to compensate for rising prices as the cost of cocoa continued upwards.

The increase in offers did mean food volumes edged up ever so slightly by 0.1%, although Italy experienced the biggest fall in food volume sales, followed by the Netherlands, the UK, Germany and Spain. Manufacturers in Italy will be questioning the impact of promotions there which were worth about €3.7bn in food and

beverage categories and saved grateful Italian families an average of €150 each during the past year.

The UK was the only country surveyed in which food promotions fell, down 1.3% compared to an increase in non-food deals, again in a bid to persuade shoppers to buy items they might not regard as vital to their weekly basket.

Food sales are driving value growth across Europe, particularly in the UK and Germany. Only in Greece is the value of food sales declining, dragged down by frozen food and confectionery, although alcoholic drinks, chilled and fresh, and ambient food experienced a slight value rise.

## Innovations in promotions

### Innovations in promotions

In a shopping environment where consumers are overwhelmed by special offers, retailers and manufacturers need a creative and innovative approach to promotions.

This is happening across Europe as stores see clever offers as one way to repair lost sales volumes and engage with promotion-weary shoppers.

Ideas working well include fuel coupons linked to grocery shopping, VAT discounts for large families and round pound/euro offers that make it easier for people to monitor their own spending. They also feel they are getting a good deal from the store.

It is crucial these promotions are simple and communicated effectively in-store and in external marketing such as television advertising.

In the UK the supermarkets have run a number of fuel-related offers to tap into consumer annoyance about the price of petrol and diesel.

In May, Tesco was offering a '10p-off a litre of fuel' coupon when spending £60 in-store or online. It went further with an offer of up to 50p off a litre of fuel if shoppers bought particular FMCG brands including Heinz products, an Andrex Toilet Roll nine pack, any two selected Robinsons Double Concentrate 1.75 litres bottles, Nescafe Original or Gold Blend coffee or

Fairy Non-Bio Powder 72 Wash.

Also in Spain there are examples of 'Branded Shopping Cart': through an alliance between newspapers and retailers. With coupons collected from La Vanguardia, for example, you could get a specific shopping basket in Condis retailer. This means that even when spending relatively little, the shopper could still get some national brands. The same was possible in a scheme run by Carrefour and ABC newspaper.

Rival Morrison has a fuel saver scheme giving customers 1p off a litre of fuel for every £10 spent on gift cards. In Italy, Esselunga has also given coupons for gasoline to its shoppers.

Round pound/euro promotions are growing in popularity too. In the UK it is estimated that among the top retailers, 35% of purchases are made on the round pound. In the Netherlands, products for €1 are prevalent in many retailers and market leader Albert Heijn has gone further with its new theme called "Route 99" with items for 99 cents.

In Spain manufacturers including Campofrío (sliced cold meat), Danone and Bimbo are also supporting the round euro idea.

In France, we have seen for instance, Auchan retail chain developing this round price strategy on fresh food with a special self-service promotional area within the store, usually

near the entrance. Here shoppers see a selection of random weight products, both national brands and PL.

Any help to reduce taxes is welcomed by shoppers as retailers look to position themselves as the consumer's champion.

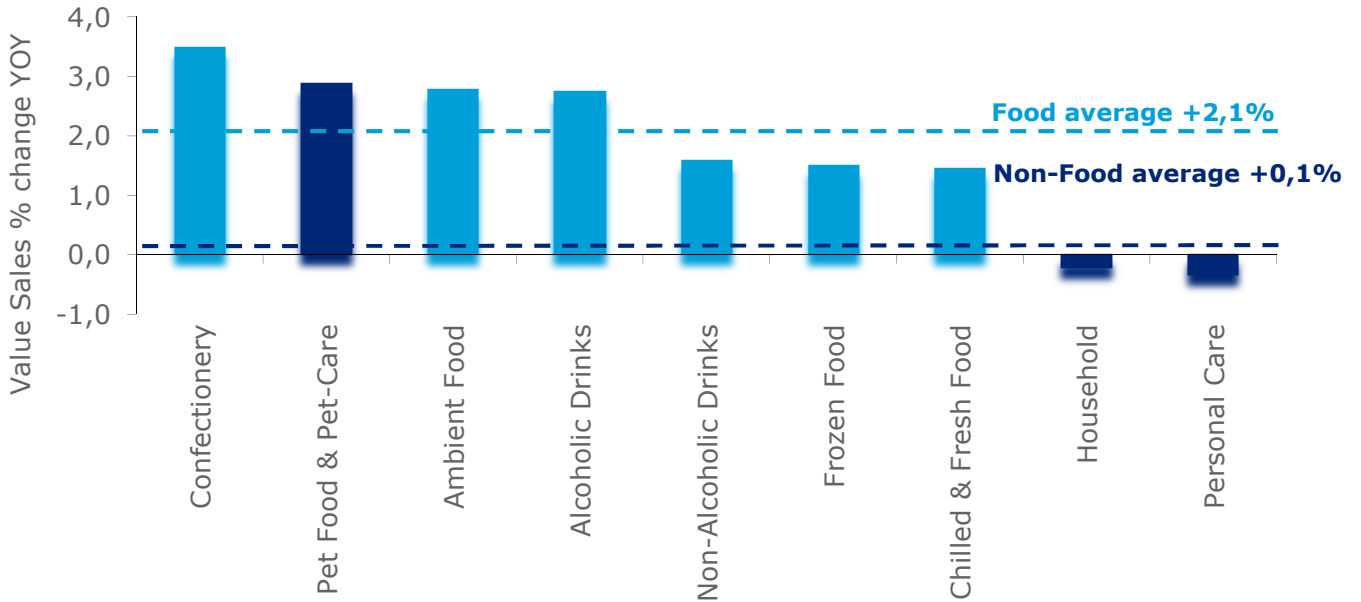
In Italy and Spain, and less so in France, Carrefour is paying VAT back on fresh local produce to retired people or families with many children. This could provide savings of €230-€260 per year for a large family.

The long-term concern among manufacturers is that despite being successful, all these innovative promotions could make it difficult for stores and manufacturers to raise prices in the future. If this happens, one result could be more pack size changes by suppliers to maintain margins.

In Germany the grocery industry is eagerly awaiting the launch of retailer Rewe's Payback loyalty card in 2014. Rewe will reward customers with points for purchases in its 3,000 stores in a partnership with the Payback loyalty marketing platform which already has about 20 million active users in 50% of German households. Payback has offline, online and mobile channels to contact customers about promotions.

# Category focus

## Value Sales Evolution by Category in Europe



**Value sales increased by 1.7% across Europe last year – food sales accelerated faster than non-food sales.**

### Category focus: Personal Care

The personal care category is in crisis as consumers see many brands as non-essentials.

Leading brand owner Procter & Gamble, whose brands include, Pantene, Crest and Head & Shoulders, is already reacting and has decreased its UK trade promotion in this category by 2% at a time when other suppliers are spending more.

Across Europe the personal care category achieved the lowest average price increase of any category surveyed at 0.7% as value sales fell by 0.4% and volume by 1.1%.

Personal care also saw the largest average increase in volume on promotion, up 7.0%, proof that promotions are no

longer benefiting sales volumes in this category.

The products that are selling well are those that blatantly serve a consumer need such as mouthwashes and toothpastes.

There are many products shoppers are realising they can do without. This is particularly true in Spain, Netherlands and Italy. Even in France, UK and Germany lines such as hair care are only growing in value terms because prices are rising. Volumes are down across the board.

P&G’s stand will be watched closely in the UK to see who blinks first among retailers or the manufacturer if sales start to suffer. Prices have risen in some categories which has prompted shoppers to hunt out bargains and trade down, although not

yet to PL in any large numbers.

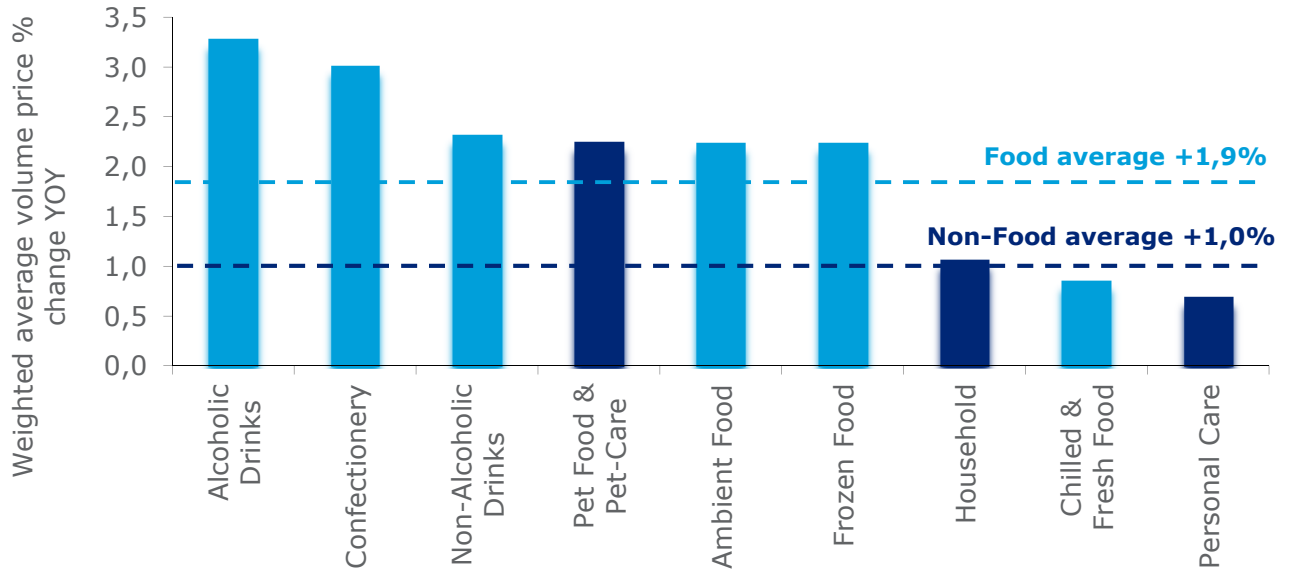
Personal care in France has not shown any significant growth for almost a decade and despite more innovation volumes are largely falling even without price hikes. Body care is performing well and price increases have pushed up value sales of shower gels, liquid soaps and hair care.

In Germany value sales are holding up for oral care and sun care. Oral care is growing in volume thanks to mouthwashes while sun care has seen extensive promotions. The hypermarkets are increasingly dominating this category. Branded products still out-perform PL and premium products are being launched, for example in hair care, in a bid to boost margins.

Price increases helped this

# Category focus

## Price Evolution by Category in Europe



**Food is driving the price increase.**

category in Italy in some segments.

There are price differences between the drugstores, supermarkets and the hypermarkets in Italy. Cosmetics and feminine hygiene performed well, while more promotions and discounting for deodorants pushed up volumes.

With unemployment at a 20-year high in the Netherlands personal care is one category where PL is gaining share. Sales in the male market seem to have stalled while promotions are particularly aggressive in oral care.

VAT increases in Spain and on-going economic gloom have hit most categories and retailers are responding with new PL personal care ranges.

In Greece, national brand toothpastes were the most

prolific users of the popular buy-one-get-one-free offer.

**Category focus: Frozen Food**

Consumer demand for value for money from frozen food was replaced in many countries by fears over quality following the much-publicised horsemeat scandal in January 2013.

Sales of frozen ready meals in the UK and France were particularly badly hit.

Overall sales volumes across Europe were down 0.7% in this category with the biggest drops in Greece (down 4.8%) which was due to the economic situation, France (1.3%) and the UK (0.8%) where promotions were down.

When it comes to promotions, the frozen food category

experienced the second lowest increase in volume on promotion after pet food at 1.3%, but still just over a quarter of frozen food was sold on deal. The highest rate is in the UK where 49.5% of frozen food volume is still being promoted.

In Germany the increase in the volume of frozen food sales including vegetables, fish, potato products and ready meals on promotion was higher than the European average at 3.3% but manufacturers are doing more to engage with shoppers.

Pizza brand Wagner organises tastings of its frozen pizza near the freezer displays, while frozen fish brands are communicating their environmental and sustainability credentials to demonstrate that frozen food contains important vitamins.



## Category focus

These ideas helped to ensure Germany saw the smallest drop in frozen food sales volumes after the Netherlands, which was the only country surveyed to see a rise in frozen food sales year on year, up 0.2%.

The Netherlands has seen growth in frozen ready meals, including pizza – driven by higher prices from brands such as Dr. Oetker Ristorante, and meat/party snacks. PL is driving growth of frozen vegetables and fruit, but value losses came from potato products as prices fell.

Potato is also a key category in the UK where prices are set to rise after a poor harvest.

Elsewhere in the UK, frozen pizza is driving growth. The horse meat scandal has had a negative impact on sales of frozen ready meals and burgers.

In France, frozen meat is still the primary contributor to this category's growth, while ice cream and frozen potatoes perform well.

In Italy it is ice cream, frozen pizza and fish meals which are seeing volumes rise.

In Greece, all major frozen categories fell in value and volume terms, consumers ignored the category completely or made less frequent purchases. Frozen Vegetables are declining by 11.4% in value and by 8.4% in volume, for example.

### Conclusion

Promotions in the FMCG sector are at a tipping point and the next few months will see the margins war between retailers and manufacturers become increasingly fierce as both sides look to improve their return on investment and boost sales volumes.

Consumers have adapted to shopping in tough times and are promotion-weary. They will continue to put brand and retailer loyalty second as they spend more time preparing their shopping to obtain the same basket of goods they want at the best value.

The challenge for brand owners and stores is how to engage with shoppers more effectively. In non-food especially there is a job to be done to convince people to spend money on items which many feel they do not have to buy as frequently.

The industry must still try to raise prices to cover increased costs. This means the promotions that will be successful are the ones that are innovative and creative and persuade consumers that a deal provides them with real value. They must also be simple to take advantage of.

We could see more retailers across Europe adopting an Every Day Low Prices strategy, but different countries have different issues to deal with and must find the most effective solutions for them.

The level of promotion for PL will also be crucial, as will the response by national brands. Manufacturers will need to be ever careful not to push promotions to the tipping point where they start to erode brand loyalty.

IRI's experts working across Europe will be busy providing FMCG retailers and manufacturers with advice and insight on how to grow in such tough economic times.



## About the report

- This report contains data gathered from seven countries in Europe: France, Italy, Spain, the United Kingdom, Germany, the Netherlands and Greece. The data has been sourced from IRI Infoscan retail databases; 52 week ending Feb (or March) 2013 and 52 w/e Feb (or March) 2012.
- Macro-categories we are looking at are: Chilled & Fresh Food, Ambient Food (including Cereals), Frozen Food, Non-Alcoholic Drinks (it includes Tea and Coffee), Household, Personal Care, Confectionery, Pet Food/Pet Care and Alcoholic Drinks (it doesn't include Wine for the UK and for Greece it includes beer and ouzo only).
- The market channels used for each country in this report are as follows:

Country	Channels used
UK	Hypermarkets, supermarkets, drugstores and impulse outlets
SP	Hypermarkets and supermarkets
GR	Hypermarkets and supermarkets
GY	Hypermarkets, supermarkets and hard discounters (excl. Aldi)
NL	Hypermarkets and supermarkets
IT	Hypermarkets and supermarkets
FR	Hypermarkets and supermarkets

**To gain insight into opportunities across specific categories, segments, channels or retailers, contact your IRI client service representative regarding custom analyses leveraging the following resources:**

**InfoScan Census®** is a syndicated retail tracking service that enables manufacturers and retailers to acquire industry insights used to make better business decisions. InfoScan Census utilises the data that IRI collects from grocery, drug and mass merchandise retailers to provide the most comprehensive and accurate syndicated data offering in the Fast Moving Consumer Goods (FMCG) sector. With access to accurate, granular detail by category, geography, measure and time period, clients have the tools needed to develop marketing and sales strategies based on product performance, distribution and promotion responsiveness.

**Analytics Advantage™ Suite** provides global solutions for all strategic marketing needs. It enables retailers and manufacturers to get fast and in-depth category insights and dynamic analysis for identifying growth opportunities and measure business impact in term of return on investment, sales and profit. The Analytics Advantage Suite goes from in-store interviews to advanced modelling solutions.

### FOR MORE INFORMATION

Please contact your IRI Consultant or send an email to [EU.Marketing@IRIworldwide.com](mailto:EU.Marketing@IRIworldwide.com)

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# Appendix

## Country by Country Review

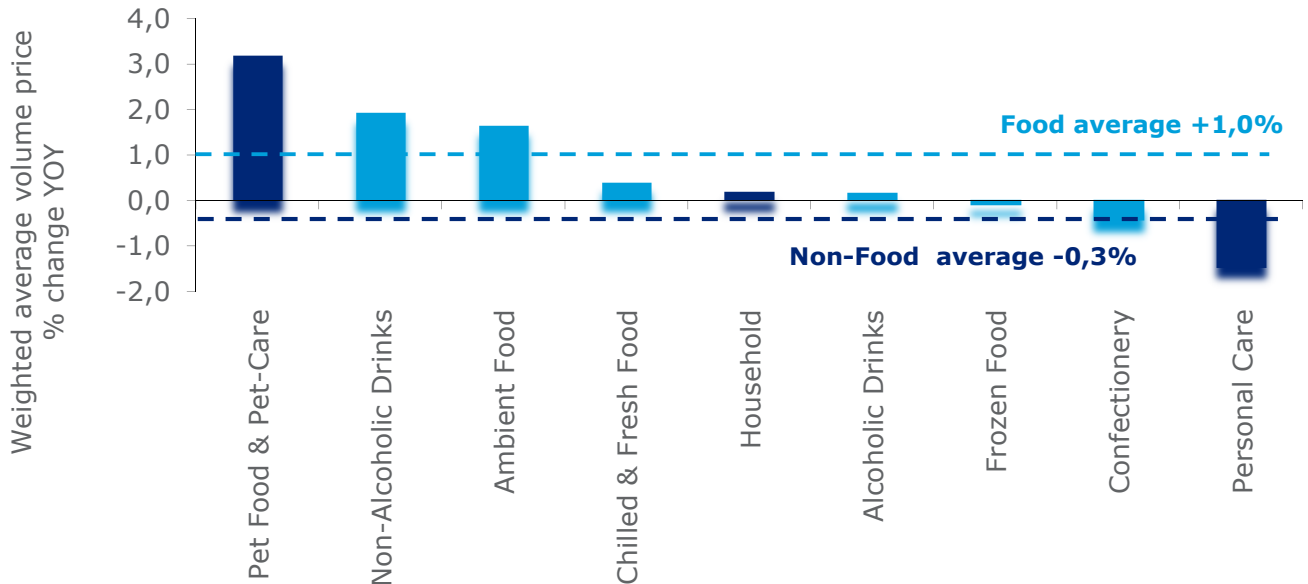


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## Trends in Spain

### Average Price Increases by Category – Spain



#### Grocery price inflation in Spain has been low and now volume sales have started to struggle; volume sales in Q1 2013 fell by 0.7%.

Shoppers have had it tough in Spain with unemployment reaching 27% in early 2013 plus income tax and VAT rises.

It means consumer purchasing power has been significantly reduced.

Grocery price inflation in Spain has been low and now volume sales have started to struggle. In the first quarter of 2013 grocery sales volumes fell by 0.7%.

The response from retailers and manufacturers has been to promote long-term low prices. Caprabo, El Corte Inglés and Carrefour have reduced the price in some references while Danone is running the campaign 'Low Prices the Whole Year'.

Price is in the top of mind of consumers, although it is not the only motivation for purchasing.

Promotions are increasing sales but consumers feel cheated if a product is continually on deal.

There is more pressure to promote, particularly in the hypermarkets which now have a 31.2% share of value promotions with the supermarkets on 16.0%. The top 10 retailers in Spain now account for 86% of sales but the local supermarkets are gaining market share from the hypermarkets.

PL has a low promotional share in Spain but its slice of value sales is now 43% and growing every year. About 10% of PL sales are on promotion.

In 2012, some 98 out of 219 categories are increasing sales by more than 5% and 79 of these are seeing more promotions.

Potato snacks and chocolates are the most promoted categories with up to 40% of sales on deal. Yet none of them is increasing sales. Among the categories seeing the biggest increase in promotions are nail polish, health fruit snacks, pasta and rice and ready-prepared meals.

Mercadona, the leading retailer, does not run any promotions and is increasing its sales thanks to its commitment to Every Day Low Pricing (EDLP).

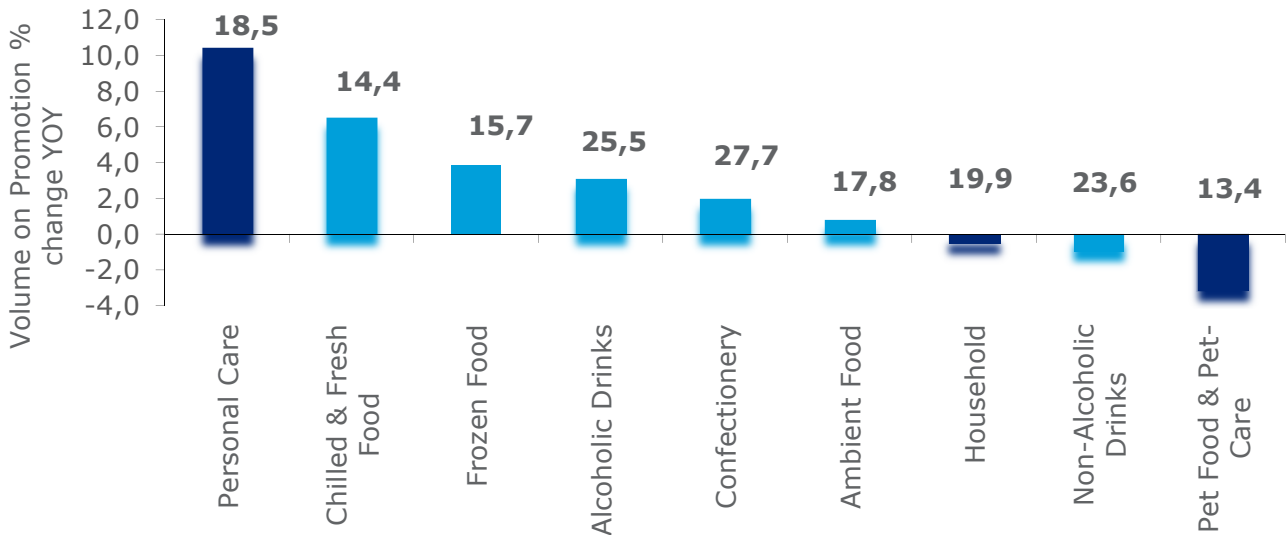
Among its rivals, price discounting remains the most frequent type of promotion.

El Corte Inglés has reduced the price of 5 000 products by 20% to appear more competitive in the eyes of cash-strapped consumers. This strategy worked almost immediately as it gained 600 000 new customers – an average of 2 000 more shoppers every day.

# Trends in Spain

## Volume on Promotion by Category - Spain

Category label above each bar shows latest year % volume on deal.



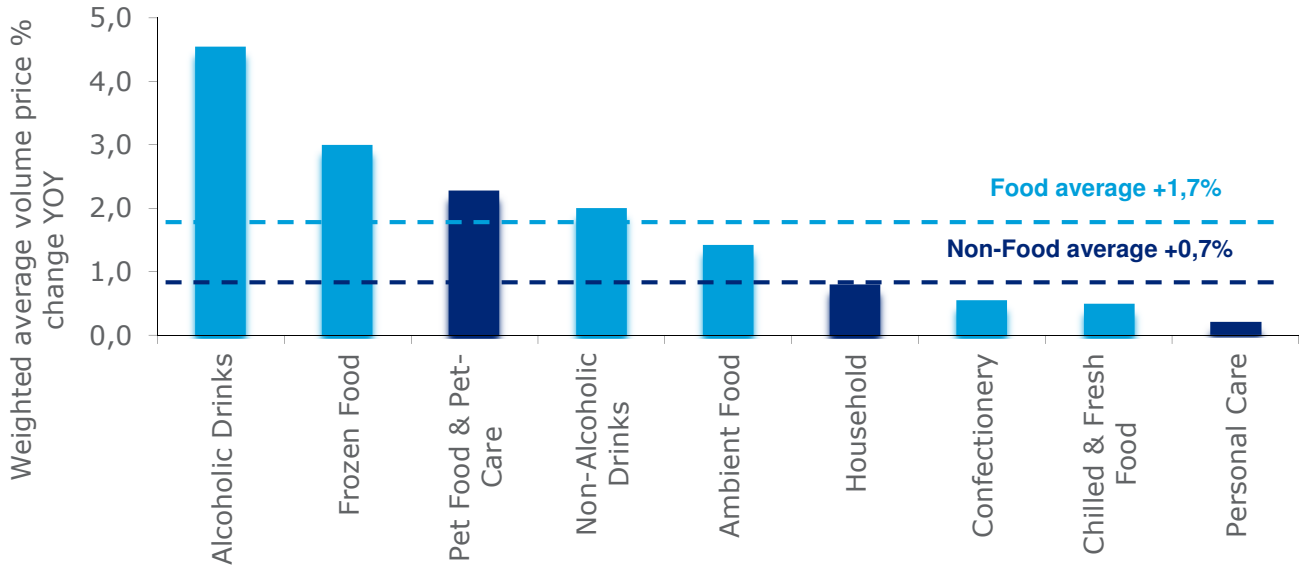
**Volume on promotion grew by 2.5% in Spain during last year.**

Caprabo has responded. At the start of the year it reduced the price of 2 000 items in what it described as a permanent move. Price cuts applied to PL items, national brands and fresh produce.

Multichannel shopping is becoming an increasingly popular strategy for Spanish shoppers to find the best deals.

# Trends in France

## Average Price Increases by Category – France



**Price war is expected to continue through 2013 with prices likely to stagnate as discounting becomes more prolific.**

Annual negotiations between retailers and manufacturers have been tense in France.

Heated debates between the two parties are expected to continue throughout 2013 with prices likely to stagnate as discounting becomes more prolific.

The use of promotional leaflets is decreasing in France where the economic troubles mean shoppers prefer immediate money saving deals to reduce the cost of their weekly shop.

Retailers are not only battling with manufacturers, but also with each other in what is becoming a fierce price war.

For instance, Casino group has entered the arena with some deep discounts across national brands and PL. Price cuts are

dominating retail advertising and marketing with hypermarket Leclerc the target. The market is waiting for Leclerc’s response which seems to be imminent through its price comparison website [questlemoinscher.com](http://questlemoinscher.com).

French shoppers are wise to the various promotions put in front of them and use them to control their spending as they become less loyal to particular retailers. The money they save enables them to keep buying their luxuries.

The escalation of promotions may have come to a halt as they actually fell from 12.7% to 12.4% in the first quarter of 2013. This has pleased many manufacturers who have criticised the price wars amid worries that such sharp

discounting will damage the long-term health of their categories.

Retailers have been quick to remind them that promotions have sustained volumes or limited the potential loss of unit sales for national brands during the recession. Promotions across PL are also down.

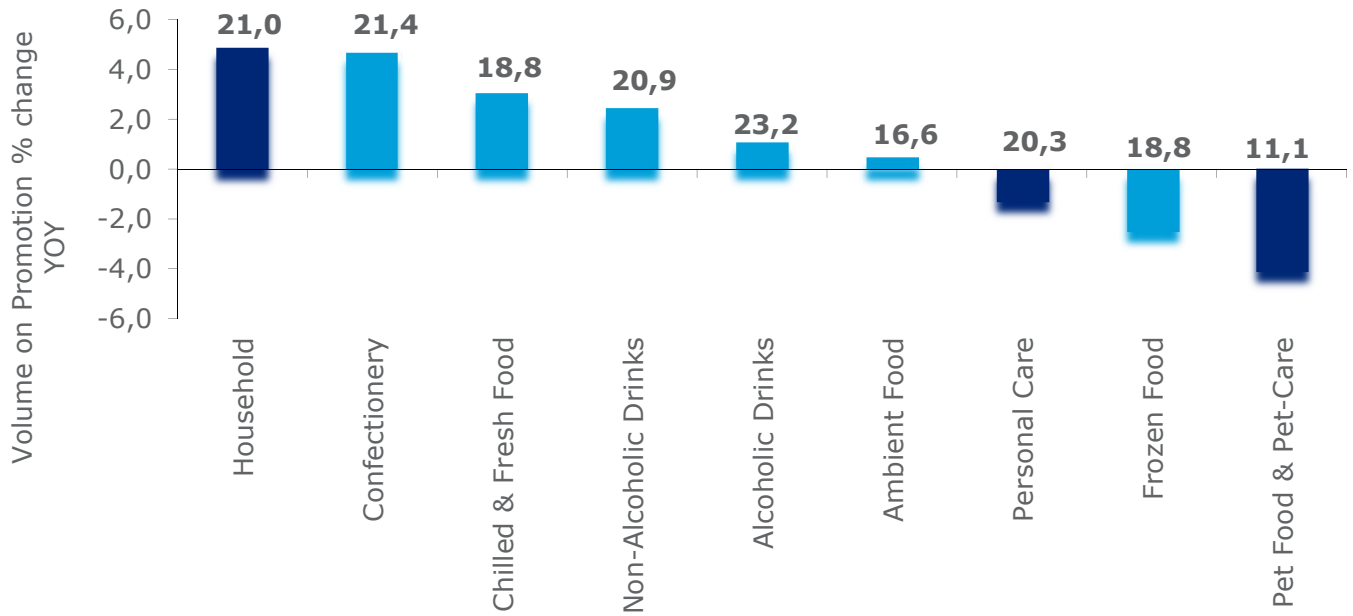
Some categories have grown on the back of additional promotions. These include dishwashing products and bottled water. Water was hit almost immediately when the economic crash happened in 2008 and prices fell sharply.

France has seen growth in ‘click and collect’ with about 2 000 outlets now offering this service. Consumers like the concept because it saves them time and

# Trends in France

## Volume on Promotion by Category - France

Category label above each bar shows latest year % volume on deal.

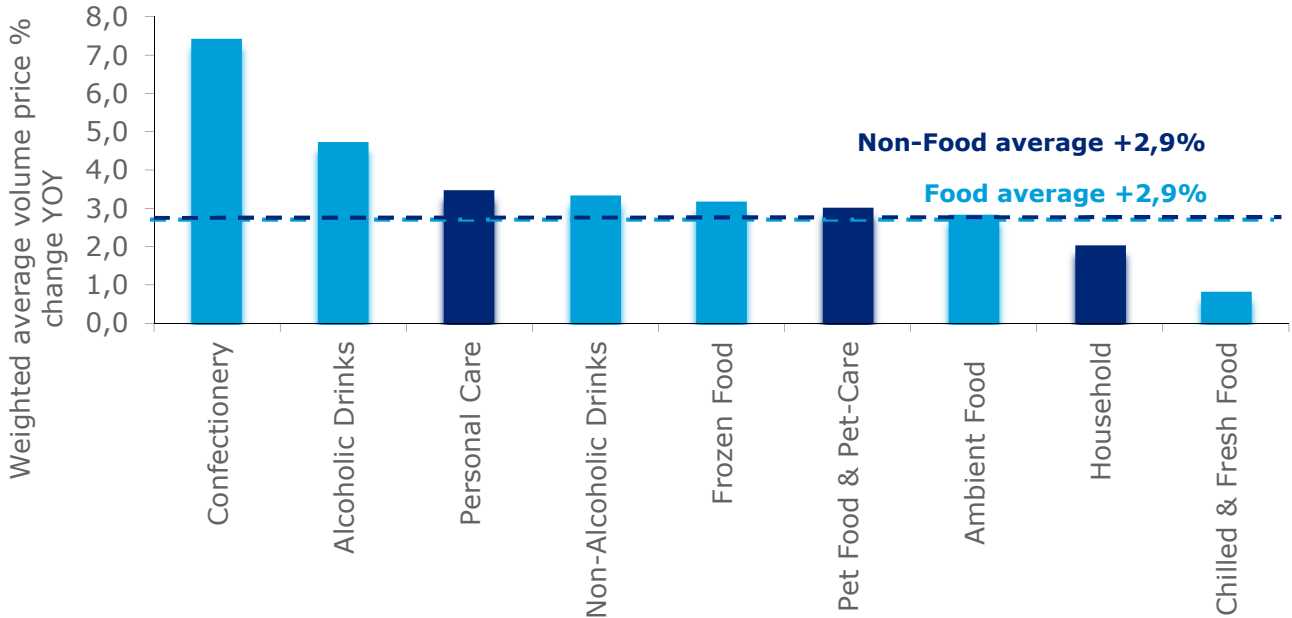


**Volume on promotion grew by 1.6% in France during last year.**

helps them to control their budget.

# Trends in the United Kingdom

## Average Price Increases by Category – United Kingdom



**Retail price war is as brutal as ever among the big four supermarket chains. Retailers’ marketing messages have centred on price comparison.**

It was a close call, but the UK narrowly avoided a triple dip recession in the first quarter of 2013.

Inflation remains higher than the level of wage rises which means the retail price war is as brutal as ever among the big four supermarket chains.

Conscious that consumers vote with their feet in tough times, retailers’ marketing messages have centred on price comparisons and reassuring consumers that they do not need to shop elsewhere to get the best deals.

Asda, Tesco and Sainsbury’s have employed this tactic. Asda remains committed to its EDLP strategy, Tesco uses a ‘Price Promise’ message and

Sainsbury’s has its brand match initiative. The rate of growth of trade promotions has slowed since the end of 2012. Trade promotion impact has remained high as the amount of promoting falls faster than the percentage volume on deal as retailers attempt to reassure shoppers that loyalty pays.

Trade promotions are the most prolific in confectionery and the level of sales from off-shelf displays has increased in most sectors. However, the UK has seen a decline in food promotions (down 1.3%) and the biggest drop in non-food in pet care (down 4.7%).

Manufacturers want to raise prices but find this difficult as many retailers position their own

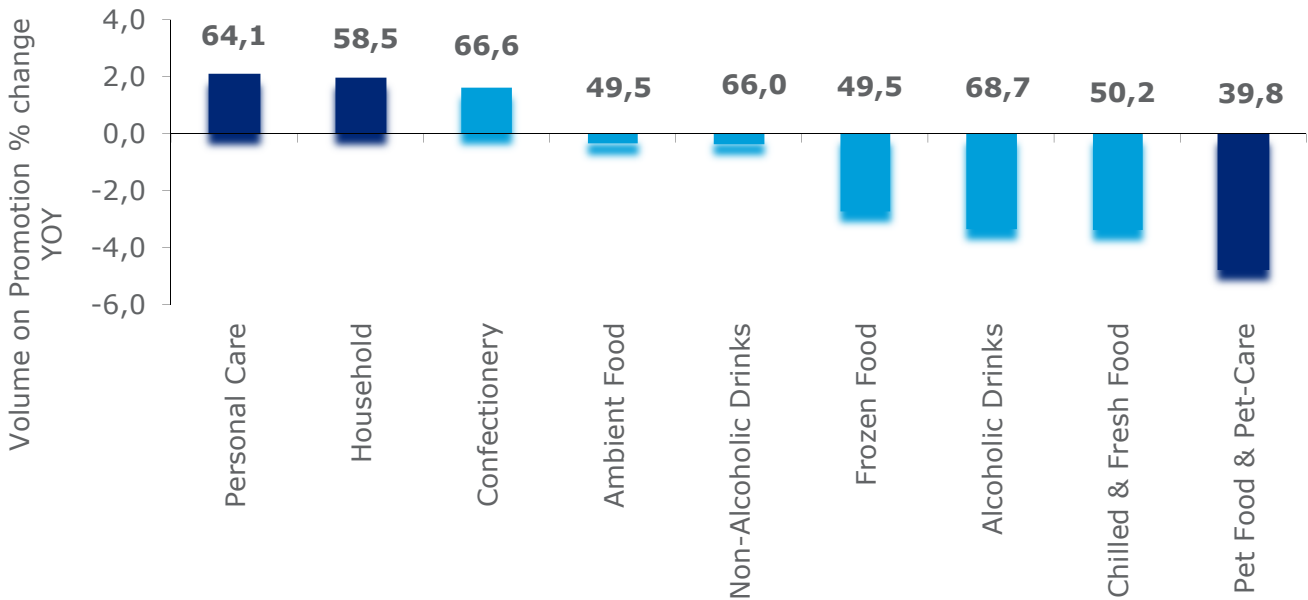
labels across the price range. One solution for suppliers has been to launch a different variant and give it a premium price. In line with this, many brand owners are reducing promotion levels because it is usually their greatest cost. But retailers will not take brands onto display unless the deal depth is high.

The number of multi-buys is lower and more promotions require only one pack to be purchased at a discount to save money. There is an increase in ‘money off your next shop’ vouchers to try and encourage loyalty and extra reward points offered by stores with loyalty schemes such as Tesco Clubcard. Tesco has recently unveiled its Summer Clubcard

# Trends in the United Kingdom

## Volume on Promotion by Category – United Kingdom

Category label above each bar shows latest year % volume on deal.



**Volume on promotion decreased by 0.76% in the UK during last year.**

Exchange which doubles the value of Clubcard vouchers on some products.

The top two categories on promotion are beer/cider (68.7% volume on deal) and confectionery (66.5% volume on deal). Confectionery deal levels peaked after the Olympics.

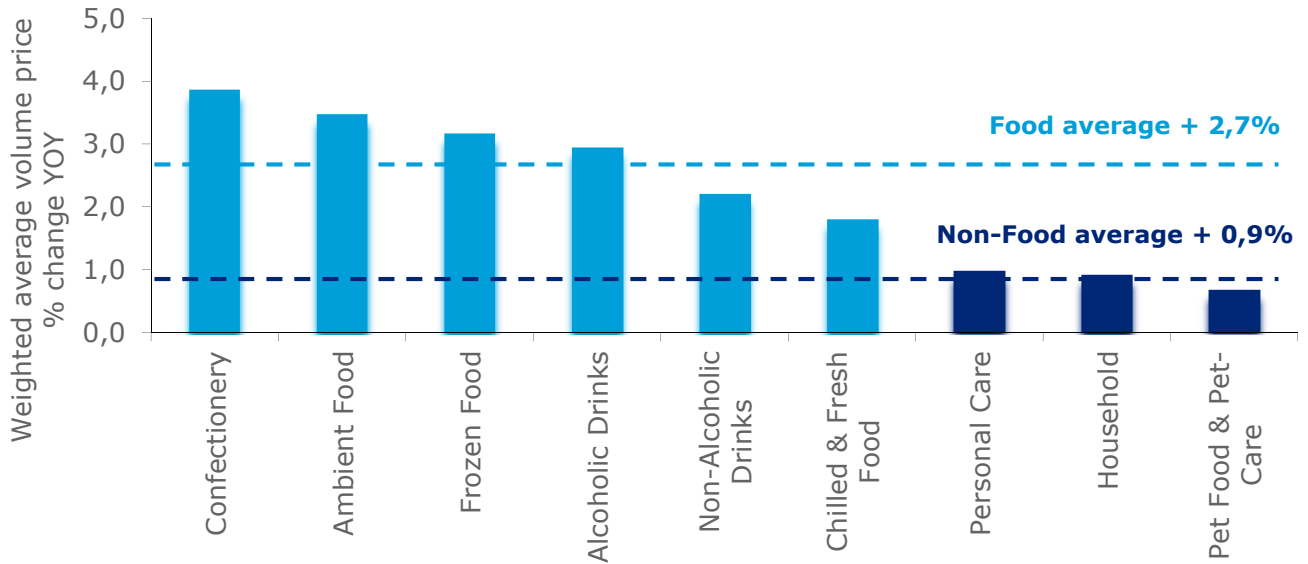
Online remains a flourishing channel in the UK and sales through mobile devices has seen significant growth, prompting retailers to become more mobile friendly. Initiatives include Asda’s in-store Wi-Fi and Tesco’s digital loyalty card offers.

Click and Collect is also growing in popularity.



# Trends in Germany

## Average Price Increases by Category – Germany



**Price increases were driven by raw material and energy costs rising but retailers could pass on only part of this increase to shoppers.**

Rising raw material and energy costs pushed up prices in Germany but strong retail competition means stores and manufacturers can only pass on part of the increase to sceptical shoppers.

Germany experienced falling volumes in every sector surveyed across food and non-food. The biggest decline came in confectionery, down 1.3%.

The big retail news in 2012 was the collapse of store group Schlecker which had employed about 52 000 people across Europe. Its insolvency meant revenues shifted from drug stores to food retailers and the more organised convenience chains such as Rewe 2 Go, Valora Retail and Rossmann Express.

National brand owners are thinking about their long-term pricing strategy and are keen to test price elasticity across the country.

The German public expect manufacturers to have good reasons for increasing prices and brand owners have developed new convenient product variants to drive through higher prices.

Germany has the lowest level of trade promotions of all the countries surveyed but national brands are on promotion for longer to fight back against PL. Although, PL is only slightly increasing its share of promotions.

There has also been an increase in promotion for categories stocked near food, such as beauty and household, as

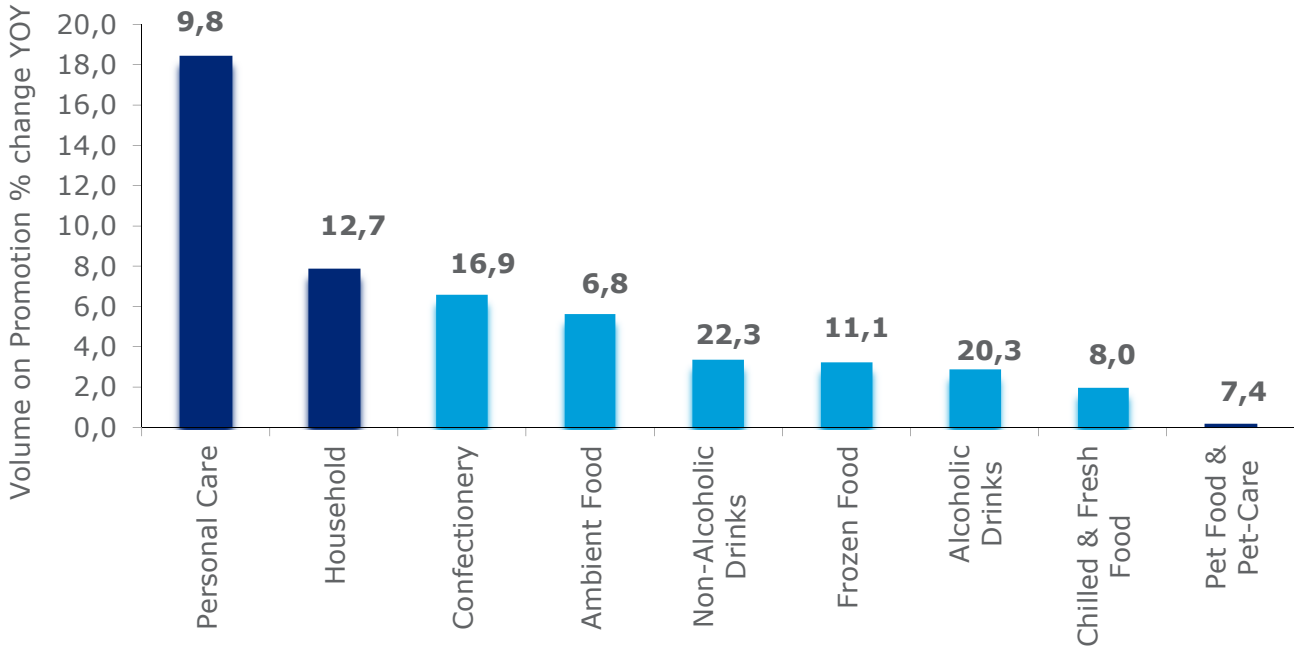
retailers try to tempt former Schlecker customers.

Although volumes are down across the board some categories are showing strong value growth, including frozen food and non-alcoholic drinks which are being heavily promoted.

# Trends in Germany

## Volume on Promotion by Category – Germany

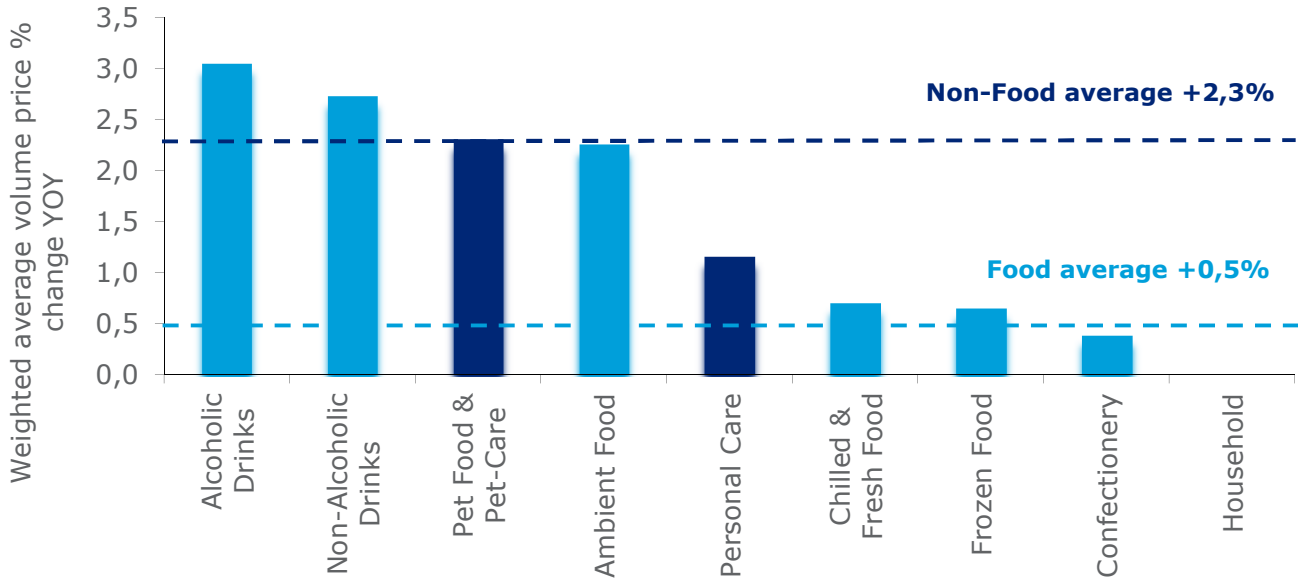
Category label above each bar shows latest year % volume on deal.



Volume on promotion increased by 4.9% in Germany during last year.

# Trends in the Netherlands

## Average Price Increases by Category – Netherlands



### The price war between all retailers continues with drugstores becoming more aggressive in their promotion activities.

As unemployment and inflation rises in the Netherlands, consumer confidence continues to decline.

The result is more emphasis on PL and an increase in promotion of national brands in response. Volume on promotion has increased by 7.0% in a year.

Price promotions still dominate and the discounts are getting deeper with more buy one get one free offers. Also round Euro promotions (products for €1) are growing in popularity.

The top category on deal in the Netherlands is detergents, where sales on promotion went up from 45% to 48%. Some 96% of promotions in this category are national brands such as Ariel Excel Tablets and Persil Bubbles, but this remains another household category in decline.

In the beer category, 34% was sold on promotion, up from 32% in a year.

Retail giant Albert Heijn has adopted Tesco's PL positioning in the UK of having different price points to improve the quality perception of its items, and rivals Jumbo/C1000 and most Superunie members will follow.

Albert Heijn in particular is conscious of how its pricing strategy around PL can help it compete with the growing threat from hard discounters such as Aldi and especially Lidl.

The price war between all retailers continues with drug stores becoming more aggressive in their promotional activities to compete with the supermarkets and the discounters.

Retail consolidation looks set to continue in the Netherlands.

Following the acquisition of most C1000 stores by Jumbo and C1000 and the division of the rest of C1000 stores and Super de Boer among the biggest retailers, two dominant players have emerged – Albert Heijn (Ahold) and Jumbo -which now account for 55% of the supermarket channel.

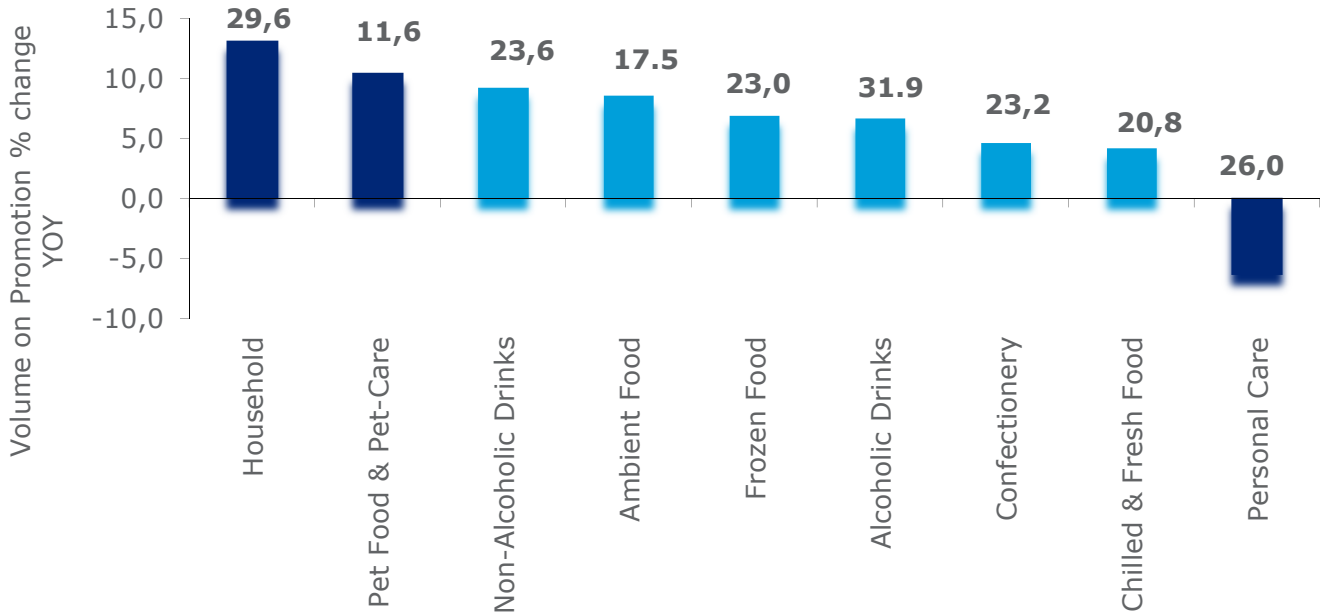
There are also some strong regional chains emerging, such as Marqt and more discounters such as Voordeelshop, while Action and Big Bazar continue consolidating their market presence.

Retailers are also joining forces to boost their own purchasing power which means manufacturers' margins remain

# Trends in the Netherlands

## Volume on Promotion by Category – Netherlands

Category label above each bar shows latest year % volume on deal.



### Volume on promotion increased by 7% in the Netherlands during last year.

under enormous pressure. In that sense, we have seen how after Jumbo left the Superunie organisation, Detail Consult (Dirx Formules and Digros) joined it to increase its purchasing power.

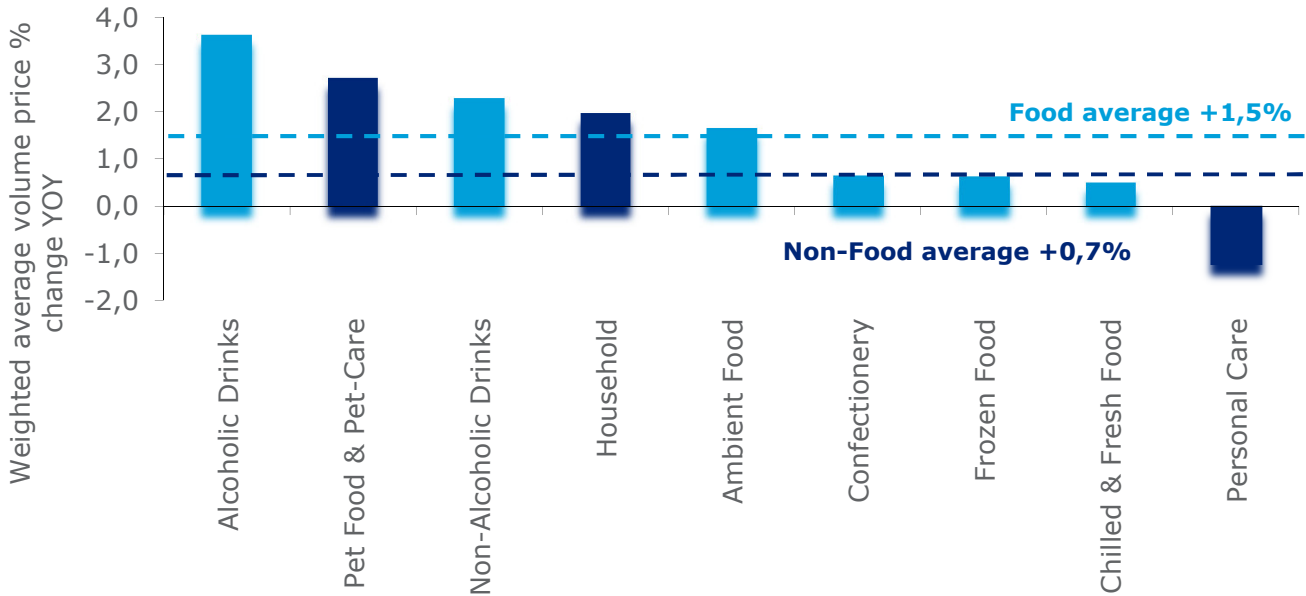
Many manufacturers have tried to push through price rises. Some brand owners feel confident enough to respond by putting through price increases in response to rising raw material costs including Unilever, Douwe Egberts, Coca-Cola and Heinz. New product development has been an important element here to placate consumers.

A couple of store groups, including Dekadrive, Co-Op and

Boni.nl, have introduced online platforms and collection points. Albert Heijn has taken over the largest Dutch online retailer Bol.com while it is also facilitating the collection of products ordered online.

# Trends in Italy

## Average Price Increases by Category – Italy



### The price war between all retailers continues with drugstores becoming more aggressive in their promotion activities..

Italian shoppers received a confidence boost in April when inflation fell to its lowest level since February 2010, to 1.2%.

Yet consumer spending remains squeezed in Italy, as wages are held down and unemployment stays high at about 11.5%.

It means Italian shoppers are very attentive to special offers and will make purchases where they see good deals. Retailers and manufacturers are responding by increasing the frequency of promotions and deepening price cuts, and promotions are controlling FMCG inflation.

Promotions are taking place across all categories with manufacturers having to adhere to strict store policies. All medium to large store formats

registered an increase in promotional pressure last year with activity particularly aggressive in the superstores and supermarkets.

Many manufacturers invested more in in-store promotions than other marketing. Only the promotional flyer was distributed more frequently to communicate special offers. In fact, the flyer is an important promotional weapon in Italy as 87% of shoppers say that they are interested in promotions when grocery shopping.

Promotions in Italy were worth about €3.7bn during the last year and this saved grateful Italian families an average of €150 each.

PL is featuring in more promotions in Italy in an attempt

to boost retailer margins. These deals are working as consumers are tempted away from national brands which have to promote more to compete.

Indeed, Italian retailers see promotions as crucial to retaining volumes and loyal customers. Stores prefer high-low pricing strategies and overall the level of promotion in the first few months of 2013 is up on last year.

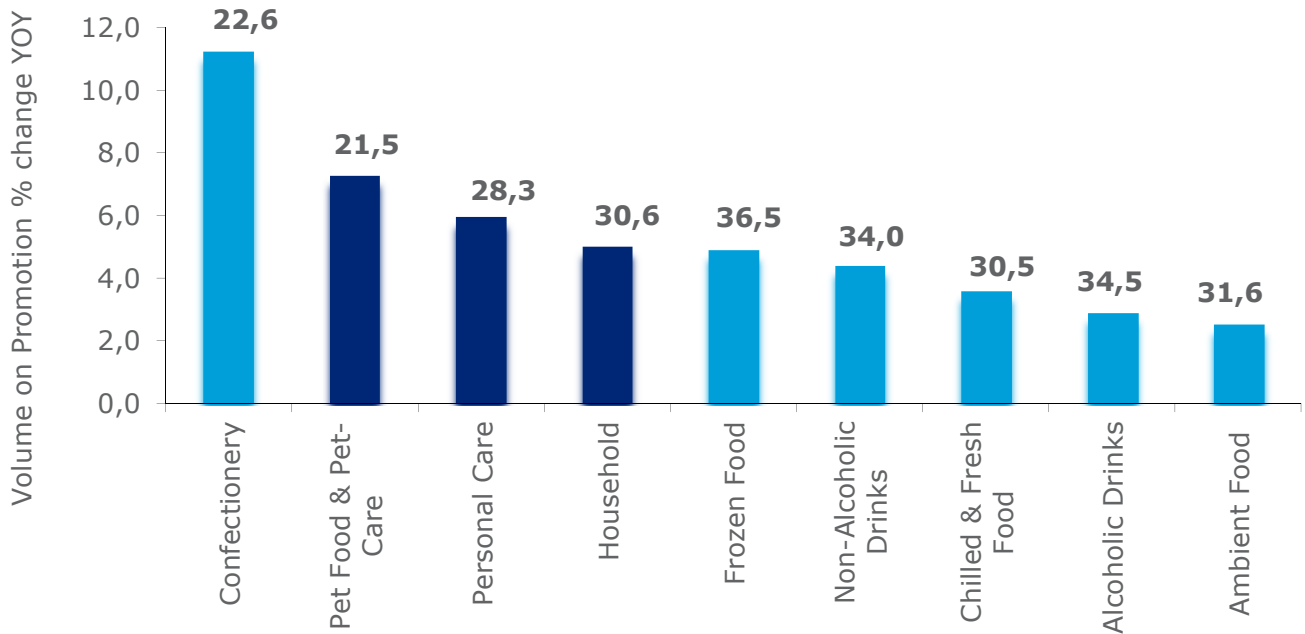
The only retailers to so far dip a toe into Every Day Low Pricing are food retailer Unes and Auchan, with the latter only applying EDLP to its PL offer.

There are always regional differences in Italy with the highest concentration of hypermarkets and supermarkets in the North West where

# Trends in Italy

## Volume on Promotion by Category – Italy

Category label above each bar shows latest year % volume on deal.

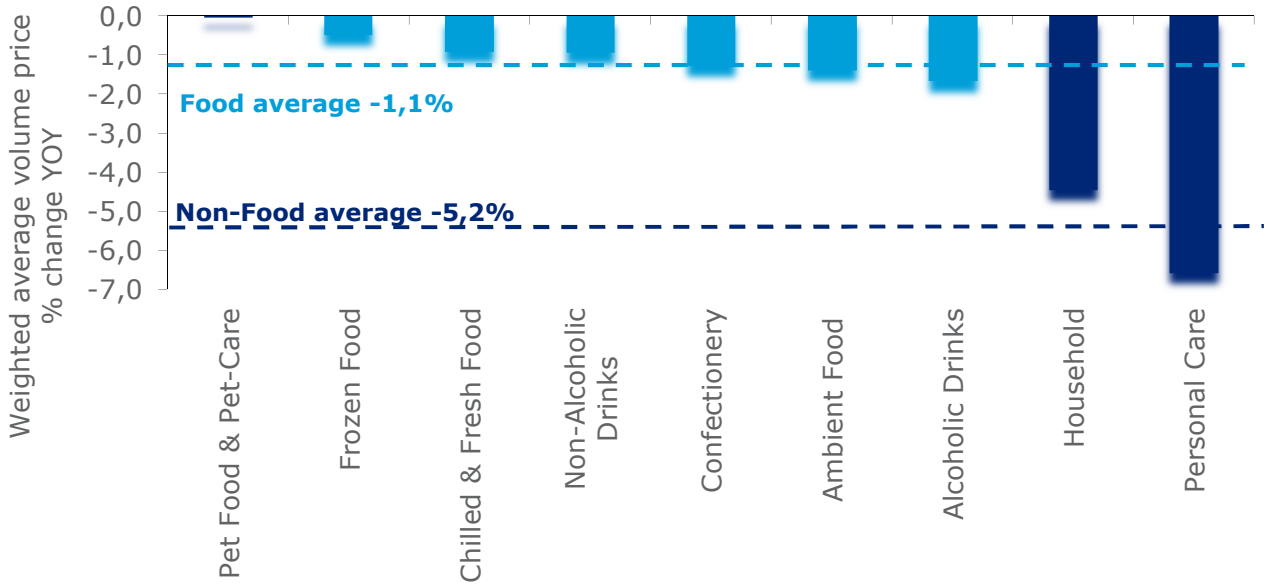


**Volume on promotion increased by 4.01% in Italy during last year.**

promotional pressures are fiercest at around 30%. In the South of Italy where the economic crisis is deeper the average price of branded products is higher but there are more discounters.

# Trends in Greece

## Average Price Increases by Category – Greece



**Greece is suffering a deflationary spiral with prices down considerably in a bid to retain volumes.**

Bullish investors may have started ploughing money back into Greek markets but for shoppers the economic situation remains dire. Unemployment reached a record 27% and 400 000 families currently have nobody earning an income.

In this context consumers must balance the household budget and look for value. This has prompted a severe retail price war and highly aggressive trade promotions and discounting.

Greece is suffering a deflationary spiral with prices down considerably in a bid to retain volumes as consumers remain in control and stores and suppliers struggle to make money.

Retailers have introduced more tailor-made promotions with temporary offers of up to 40%

widely advertised on Greek television. Manufacturers are also switching their promotions between different retailers in response to an increasingly fickle and less store loyal consumer.

Discounting is the most popular promotion with more use of electronic couponing as shoppers hunt out the best prices and use store promotional leaflets. The household category is seeing the heaviest discounting and this has boosted volumes by 3.5%. In oral care, toothpaste brands are the most prolific users of buy-one-get-one-free offers while volume offers on pasta are proving popular.

There is strong growth in PL, particularly for detergents. Price cutting by the national brands is

forcing PL prices down too as stores are determined to retain a price gap which will appeal to shoppers.

Retail consolidation has continued in Greece as the larger store chains acquire smaller rivals to grow their network. The largest retail groups now have every format size covered, from up to 400sqm to 2 500sq m. This has hit independent shops hard.