

THINK RETAIL THINK VERDICT



Retailing in Germany 2008

The wheels of the consolidation bandwagon are beginning to turn

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Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

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In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.



“Verdict are the company of choice for any research analysis and insight into retailing”

Sir Stuart Rose
Chief Executive of Marks & Spencer

Retailing in Germany 2008

The wheels of the consolidation bandwagon are beginning to turn...

The German retail market has faced difficult times recently and following some reforms, the German retail sector is on the path to recovery. With unemployment at its lowest for years combined with wage increases across the board, the situation is looking better for consumer spending. The positive factors have been undermined by the overall gloom in the global market, with fuel and energy costs rising, concern about the credit crunch and fear of a looming recession in the US deterring any significant growth prospects for retail in Germany.

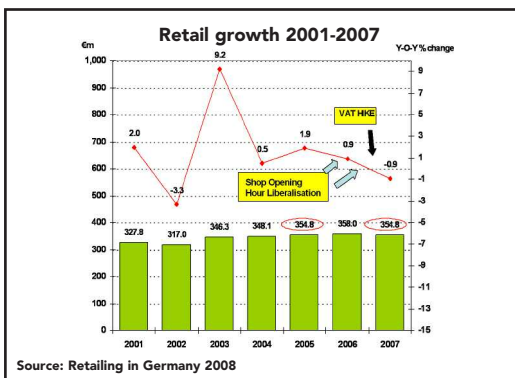
This new report published by Verdict provides accurate insights into the key trends and future developments for Germany's retail sector. It also provides new insights into the strategies for growth in a challenging and competitive market environment through its detailed analysis of the opportunities in the country and abroad.

9 Key German retailers featured

Aldi	Praktiker
Edeka	Rewe Group
Karstadt	Schwarz Group
Metro Group	Tengelmann Group
Möbel Höffner	

This new report will help you to assess the retail competitive landscape in Germany and create strategies to exploit future growth in the retail market...

From 2007 back to 2005, VAT rise & shop opening hour liberalisation...



"In 2007 overall retail sales fell by 0.9%. In actual terms retail sales fell back to 2005 levels of €354.8bn. Retail sales were impacted by a 3.0% rise in VAT at the beginning of 2007. However the worst effects of this tax increase were offset by the shop opening hour liberalisation, which came in effect in 2006..."

- **Quantify key retail trends and accurately predict future opportunities** based on this report's company analysis detailing market share of leading retailers, demographics, channels of distribution, store numbers, selling space provision, sales densities and average store size in six key sectors.
- **Predict potential growth for retail in Germany and the challenges facing key German retailers** in-depth analysis of market drivers, key issues and market outlook using this report's growth forecasts for DIY, Grocery, Furniture, Out-of-Town, Clothing (including department stores), and Electricals in Germany.
- **Develop more effective strategic responses** with this report's actionable recommendations for how retailers can cope with the changing German retail market.

Retailing in Germany 2008

This report answers key questions including...

- What are the key issues affecting the retail market in Germany?
- Who are the top players in the German market and how quickly are they consolidating their position?
- Where are the growth opportunities in the German market?
- Where are the major threats to German retailers coming from?
- How will market trends affect German retailers?
- Which German retailers are the most profitable?

Key Retailer Data

Sales densities
Selling space
Number of stores
Sales
Operating profit
Average store size
Sales per outlet

Key issues examined in this report...

Germany has Europe's largest organic market, leading the likes of the UK, Italy, France and the Netherlands...

Germany organic market performance 2002-07

€bn	2002	2003	2004	2005	2006	e2007
Grocers expenditure	120.5	123.9	126	127.5	128.5	131.1
% change	2.1	2.8	1.7	1.2	0.8	2
Organic expenditure	3	3.1	3.5	3.9	4.6	5.2
% change	15.4	3.3	12.9	11.4	17.9	13
% share	2.5	2.5	2.8	3.1	3.6	4

Source: Retailing in Germany 2008

"Scandinavian markets also show high levels of growth and eastern European markets should follow suit sooner rather than later with major organic ranges already making an appearance in these countries. But in the development of organic/natural retailing the main market is undoubtedly Germany..."

- **Increased domestic competition has also affected German retailers' margins.** Many companies feel under pressure from competing on increasingly lower prices and rising costs. German retailers are finding that their domestic position is being eroded by this increased competition from discounters in particular and have surveyed international markets as a source for fortifying sales growth.
- **One of the major trends affecting German retailing at the moment is consolidation.** In recent years there have been considerable developments in the ongoing saga of consolidation in German retailing, most notably in the DIY, grocery and discount sectors.
- **Discounters have made the German retail sector extremely price competitive.** Smaller players look for alliances in order to remain competitive and boost their market share. For many smaller retailers the only viable option to compete with the discounter giants is to cooperate with a competitor in order to benefit from the synergy effects, lower costs and increased market presence through a larger store portfolio.

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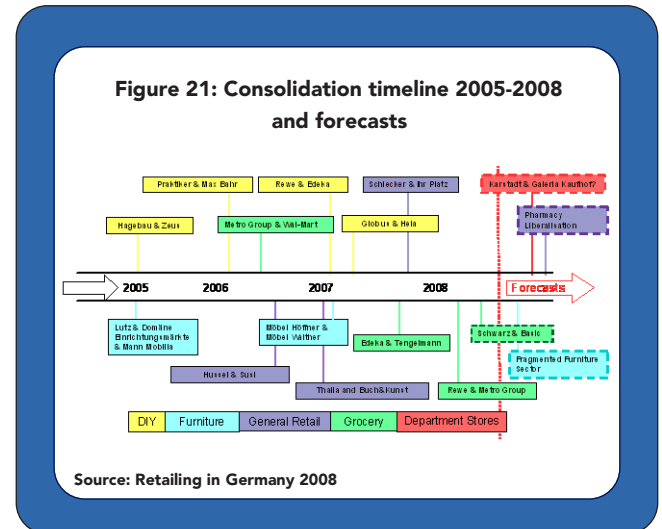
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Consolidation: From Max Bahr and Wal-Mart, via Plus and extra, to perhaps Galeria Kaufhof and Karstadt?

- The German grocery sector has been in a period of consolidation, which has been primarily caused by tougher competition from the hard discounters Lidl and Aldi. For years discounters have been the only format growing like-for-like sales in the tough German retail environment and have now extended their share to 42.0% of grocery retailing in the country. Until recently with Lidl and Aldi growing strongly, the discount sector in Germany looked likely to develop into a two-tier system, with the two leading players playing in a league of their own. However, following a series of mergers and acquisitions by key competitors the gates are now open for rival retailers to gain some ground on Germany's two leading discounters.



- Edeka strengthened its underperforming Netto discount fascia with the acquisition of the German arm of Tengelmann's Plus discount chain. The transaction was the biggest shake up of the discount sector in Germany for years and represents a major coup for the group as growth is hard to come by in the tough German trading environment. This is especially important for Edeka, which has no major presence abroad, after having beaten a retreat from internationalization a number of years ago. The acquisition of Plus will enable Edeka to narrow the gap with Aldi, the undisputed champion of German discounting and create a major domestic rival to Lidl.
- As a direct consequence, Germany's number two grocer, Rewe, having lost out in the bidding war for the Plus discount chain, reacted by acquiring 245 'extra' stores from Metro Group. The acquisition allows Rewe to shore up its position and market share in Germany. The extra stores have an average selling space of 1,700 sq m and are ideally suited to fit in with Rewe's supermarket concept in the country. For Rewe this acquisition comes on top of strong organic growth planned for 2008 with 130 new stores scheduled to open and in Berlin the retailer has doubled its store portfolio to 100 outlets with this one fell swoop. That said, the 'extra' chain has been making a loss under Metro's tutelage, being the only small footprint operation in Metro's portfolio and hence the odd one out. We are confident that Rewe will be much better suited to running 'extra', creating significant synergies and integrating the chain into its existing operations relatively easily.
- In an attempt ultimately doomed to fail, The Schwarz Group, owner of the discount chain Lidl, had been building up a stake in one of Germany's most successful organic retailers, Basic, with the aim of an outright acquisition. The group was planning an aggressive roll out of new Basic outlets following the proposed takeover. However protest from the company's suppliers and consumers has subsequently pressured Basic to retreat from its possible alliance with the Schwarz Group.

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