

Quantifying the Disruption: Kantar Retail Unveils Its Lidl U.S. Forecasts

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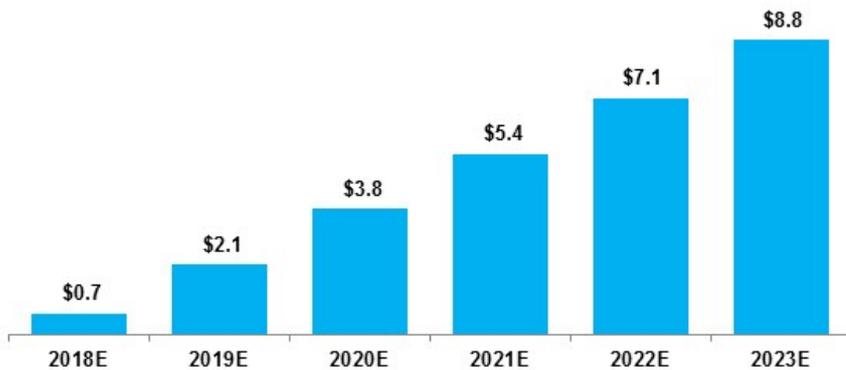
By:  [Mike Paglia](#)

Lidl is urgently readying its operations as it aims to open its first stores on the East Coast as early as next year. With that in mind, and in response to client demand for an empirical view of Lidl's growth, Kantar Retail has unveiled its Lidl U.S. forecasts for overall sales, store base growth, and sales per store. In addition, these projections include the detailed assumptions we used as inputs to create our proprietary methodology. These first-in-the-industry forecasts will help suppliers and retailers plan against the Lidl launch using data-backed insights.

Overall Sales

Lidl will have a rapid and significant impact from a sales perspective when it begins operations (officially) in 2018 (Figure 1).

Figure 1. Lidl U.S. Sales Forecast, 2018E-2023E (USD Billions)



Source: Kantar Retail analysis

We believe Lidl could approach USD9 billion in sales by 2023 (which would make it bigger than Wegmans' 2016E volume of USD8.1 billion). Our proprietary bottom-up approach takes the following factors into account:

- Knowledge of how Lidl performs in other markets from our global analyst team
- Real estate capacity in the metro markets Lidl will enter as well as those markets' current competitive makeup
- Lidl's potential warehouse capacity
- A disruptive business model centered on a high-quality/low-price assortment that will be highly relevant with shoppers
- A phased approach to its store layout that will see the available selling square footage increase over time
- Sales-per-square foot assumptions based on Lidl's history in other markets
- Lidl's public statements regarding store opening cadence

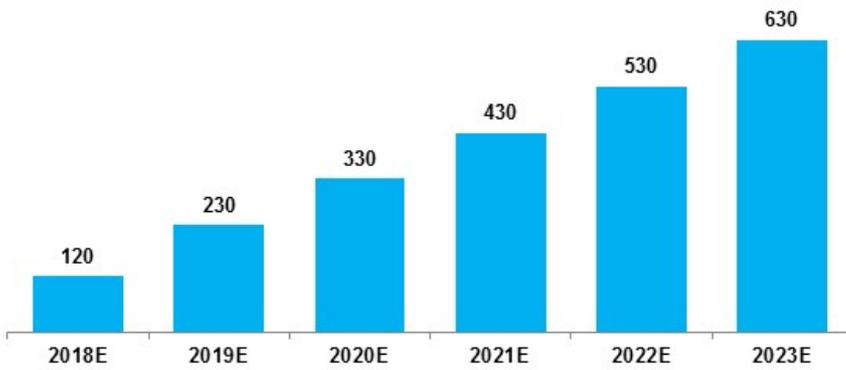
We anticipate a significant jump in sales from 2018E to 2019E. This is the result of the anticipated 2018E store opening schedule "loads" falling into 2019E.

A note regarding timing: We chose 2018 as the start of the forecast period to align to Lidl's public statements that its first stores will be open "no later than 2018." The word choice is interesting because it leaves open the possibility that stores could open sooner. Our opinion is that Lidl could do soft store openings as soon as the middle of 2017, which would result in an accelerated sales forecast. Until then, we will stay with 2018 as the start of the forecast period.

Store Base Rollout

Lidl has signaled that it will aggressively establish and grow its U.S. footprint. We anticipate that the retailer will open approximately 100 new stores per year (Figure 2).

Figure 2. Lidl's U.S. Store Growth Forecast, 2018E-2023E



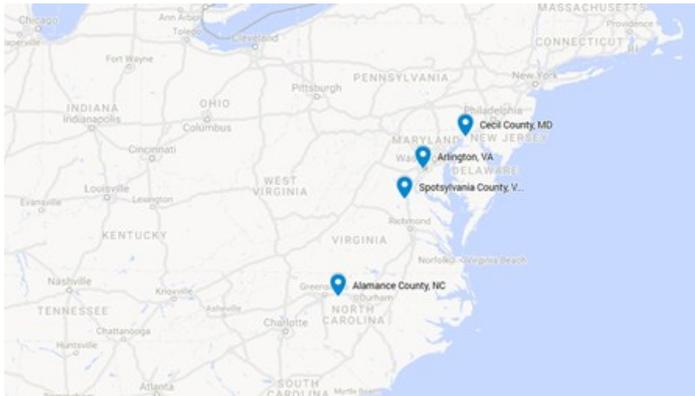
Source: Kantar Retail analysis

Our store growth forecast is based on the following assumptions:

- Lidl's public statements that it plans to open up to 150 stores in its first year of operation
- Kantar Retail's estimate of a more conservative and feasible store opening rate of 80% of the stated plan
- The fact that it will take time for Lidl to fully understand the complexities of real estate development in the U.S., which is a new and less familiar market for the retailer
- Potential for construction delays, legal obstacles, and other challenges that could slow store opening plans
- Three warehouses with sufficient capacity to support several hundred stores

Nevertheless, it should take only five years for Lidl to get to a footprint of over 500 stores. The retailer has no plans to stop there, as demonstrated by the fact that it has three distribution centers and regional offices currently under various states of construction (Figure 3).

Figure 3. Lidl's U.S. Distribution Network and Headquarters



Source: Kantar Retail analysis, Google Maps

Also important to understand is where these stores are likely to be located. In recent weeks, Lidl has posted job vacancies for store managers and supervisors in over a dozen metro markets (Figure 4).

Figure 4. Metro Markets of Focus for Lidl



Source: Kantar Retail analysis, Google Maps, company website

What immediately becomes clear is that Lidl views the Eastern Seaboard from Pennsylvania to Georgia as in play. This will put it in [direct competition with a wide array of retailers](#), such as BI-LO, Dollar Tree, Food Lion, Stop & Shop, Walmart, and Winn-Dixie.

Sales Per Store

We believe that early stores on average could generate over USD10 million in annualized volume (*Figure 5*).

Figure 5. Lidl's Annualized Sales Per Average Store Forecast, 2018E-2023E (USD Millions)



*Annualized volume

Source: Kantar Retail analysis

Our sales per average store forecast takes into account the following:

- A traffic model built on small yet frequent trips
- A small-format store featuring an edited assortment of high-velocity items sold under a value-oriented brand promise
- Sales per average square foot of approximately USD473 at the start of the forecast period, which should grow to approximately USD562 by the end of the forecast period
- A compound annual growth rate for the forecast period of 6.9%

Most importantly, Lidl is taking a unique, phased approach to how it will deploy its square footage. Kantar Retail has [analyzed](#) this approach in great depth, but the key point is that when a new Lidl store opens, approximately 12% to 15% of the selling square footage will go unused. This Phase 1 store is meant to suit the needs and preferences of its new U.S. shoppers and give them an opportunity to get comfortable with the store. In time, Lidl will switch over to its Phase 2 stores, which use all available space and feature a modified layout. Simply put, more selling space equates to more sales per store, which will drive overall sales higher.

Kantar Retail Point of View

The time to start preparing for Lidl's arrival is now. Many suppliers are already working quickly to be ready for Lidl long before its first stores open. However, many more are not moving quickly enough. In that light, we have provided a few implications and action items for all suppliers regardless of their state of readiness.

Lidl has earned a reputation as an innovator. It regularly modifies its stores, adds new services, and tweaks its assortment to keep its offer fresh and relevant for shoppers. In effect, Lidl is a moving target, and excels at staying ahead of and adapting to changing trends. **Supplier to do: Expect Lidl's growth to outpace the market for some time.**

Lidl will be too disruptive for other retailers to ignore. While some competitors are sufficiently differentiated to be relatively insulated from the Lidl threat, others are highly exposed. If Lidl is as successful as it expects to be in such a dense region of the country, it is reasonable to expect that it will steal shoppers — and share — from competitors. **Supplier to do: Consider the impact of Lidl's arrival on your customers in these markets, and treat the retailer as a planning input starting in 2017.**

Lidl will be too disruptive for suppliers to ignore. From its highly differentiated model to its aggressive expansion plans, everyone will feel an impact, but not all will feel it equally. For suppliers specifically, the level of opportunity will vary. Since Lidl's assortment skews heavily toward private label, the sales opportunity aligns more with the iconic, large-scale brands that Lidl will rely on to gain credibility and drive traffic. **Supplier to do: Assess your brands against Lidl's model to identify potential opportunities. If your brands are not a good fit, consider opportunities on the private label side of the business.**

Stay with Kantar Retail for the latest Lidl insights as our global analyst team deconstructs and analyzes the relevant dynamics before, during, and after Lidl's arrival in the U.S. In the coming months, count on Kantar Retail to provide you with details on the shopper, assortment, merchandising, and pricing components of Lidl's arrival.

Note: Our most up-to-date Lidl U.S. forecasts are now available through [ReportBuilder](#) on [KantarRetailIQ.com](#).

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