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The new popular ingredients: bogofs and discounts

Supermarkets

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Twelve months ago the big grocers reckoned the world had changed: food shopping was no longer about price, but provenance, green issues and healthy eating.

Organics were the new big seller – Asda doubled its range and at Tesco sales hit £1bn a year – while at Sainsbury's Jamie Oliver was urging the public to try something new and adventurous with sage or nutmeg.

Now, as household budgets are stretched, the grocers have done an about-turn. They are screwing their suppliers to the floor to keep price rises low, filling their shelves with promotions – and Jamie's new campaign is all about how to feed your family for a fiver.

Yesterday's ONS figures show food prices are up 6.6% in the year to April. The supermarket bosses will again insist that they do not "recognise" the price rises detected by the ONS.

The grocers measure increases over their entire catalogue of up to 40,000 products and most insist that food inflation has never been more than 3%. Last month, for instance, Tesco said its food price inflation was running at 1.5% and price pressure was easing rather than mounting.

But rising food bills are starting to change the way we shop. There is evidence of some shoppers switching to discounters while others trade down to cheaper ranges or swap eating out in restaurants for premium range stay-at-home meals.

The big four grocers have all been playing up their price credentials. Yesterday Tesco said it was adding another 1,000 promotions – reduced prices, "extra free" deals and bogofs (buy one, get one free). It claims that takes the

total number of current promotions to 9,000, the most in its history.

When Tesco reported its annual results last month, chief executive Sir Terry Leahy said: "In lots of little ways we are repositioning the store so [customers] get a feeling Tesco understands the straits they are in."

The change in emphasis is having other effects: the growth rate of organics has slipped from 30% to 10%.

Market research from TNS Worldpanel shows discounters such as Aldi and Iceland, which are showing year-on-year sales growth of 17% and 12% respectively, are increasing market share far faster than the big four supermarkets.

German-owned Aldi, whose range is entirely own-brand, reckons its shopper numbers are up 25% on a year ago and that the number of ABC1 shoppers has climbed 17% over the same period. It

says half of its shoppers now come from the higher socio-economic groups.

Paul Foley, Aldi's UK managing director, said the move to discounters has not been sudden, there has been an upward drift in shopper numbers for three years, but current circumstances have "jolted new customers into the business".

"It is a different way of shopping. You have to persuade yourself that you do not need the choice of 16 different types and sizes of ketchup or 150 varieties of yoghurt."

Danish-owned Netto, which operates 184 UK stores and is largely own-label, is also witnessing growth. Managing director Richard Lancaster said Netto was benefiting from "the Primark effect", where price and quality attract wealthy and poorer shoppers: "Our research shows that we're attracting a wider range of shoppers, including those from

a more affluent background who previously may have overlooked Netto."

Edward Garner, director of research at WorldPanel, however, said "there is a lot of hysteria about food prices" and that consumers are being slow to change their shopping habits. He pointed to butter sales. "There has been a price hike of 30% and there is an easy cheaper alternative – margarine. But volumes

9%

The proportion of household budgets spent on food today, compared with 25% in the 1960s, one researcher claims

are unchanged. The same applies to eggs and milk."

Shoppers, he said, will pay higher prices because food spending is now a relatively small part of household budgets – down from about 25% in the 1960s to 9%. "People may not move house or buy a new car. But you have to go a long way down before people think about buying cheaper bread."

The increasing market share of the discounters, he insisted, is down to them picking up customers from Kwik Save, which collapsed into administration last year. Aldi's Foley countered that Kwik Save's market share had all but disappeared in the months before it went bust.

Garner suggested a different trend: growing sales of premium supermarket ranges – such as Finest and Taste the Difference – as consumers stay away from restaurants and eat at home. Morrison's value range is up 13% on last year, but its premium range is up 22%.

Yesterday Wal-Mart said its Asda offshoot had "delivered a strong first quarter" – sales up 6.4% and premium lines showing a 30% rise