GRAND DUCHY OF LUXEMBURG

Retail structure, supply chain and available offer of fast moving consumer goods in the Grand-Duchy of Luxembourg

Shopperware March 30th 2015
for AIM / BABM Knowledge Center

INTERREGIONAL PRICE COMPARISON REPORT
A JUMP INTO CONCLUSIONS

‘Sur initiative du Vice-Premier ministre, ministre de l’Économie, Étienne Schneider, et vu le préjudice subi par le secteur de la distribution, en particulier au Luxembourg et en Belgique, un groupe de travail composé d’experts originaires des États membres du Benelux s’est réuni en date du 15 janvier 2015 à Bruxelles afin d’analyser la problématique liée aux restrictions territoriales de l’offre. La situation actuelle entraîne une double pénalisation: en matière de prix (impossibilité de s'approvisionner aux meilleurs prix) et en matière d'offre (disponibilité limitée de produits). Ces contraintes sont source de surcoût pour les différents distributeurs nationaux’

TERRITORIAL RESTRICTIONS ON SUPPLY

- Prevents buying at lowest price
- Limited availability of products

SITUATION

The European Commission is considering investigative initiatives regarding alleged practices of territorial restrictions in the offering of fast moving consumer goods in the Grand Duchy of Luxembourg. Facing the possibility of such an approach, BABM and AIM (European Brands Association) have decided to take proactive steps to provide the EC with arguments in case it decide to initiate an enquiry.

Claims have been made towards manufacturer organizations stating that choice and price levels in Luxembourg retail are being jeopardized by manufacturer's practices:

in terms of **price**: inability for the various national retailers to source the best prices leading to an extra cost source

in term of **supply**: limited availability of products as manufacturers and /or their intermediaries are preventing Luxembourg traders free access to supply networks of their choice

OBJECTIVE OF THE RESEARCH

This study describes the exact **nature of the issue**, pinpoints the **driving forces** , make an inventory of **the current business practices** and develops and argumentation that illustrates the **bonafide attitude** Benelux manufacturers organizations

In particular, it aims to have a closer look at the claim of limited availability of products on which some empirical evidence was gathered

The study does not focus on the price level topic as this already covered by the extensive study '4 borders study' ('Etude 4 Frontières') carried out by Nielsen since 2007 (last wave in 2015).

Shopperware interviewed a sample of Be(ne)lux CEO or Commercial Directors to understand the way Be(ne) lux organizations deal with some complexities and how they respond to the specific need of their customers and consumers IN THE Grand Duchy of Luxemburg

APPROACH

Scope of trade visits

6 product categories of different store departments were selected for which the assortment was registrated in a selection of retail stores in the Grand Region.

The following product categories were involved :

- Sweet grocery : chocolate spread /speculoos paste
- Fresh diary : yogurt
- Cleaning products : laundry products
- Personal care : shampoo
- Non-alcoholic beverages : soft drinks (= coke / lemonade / tonic / ice tea)
- Alcoholic beverages : lager type beers

Geographical scope

In different retailers and shop types at select shopping areas close to the Luxemburg border (less than 20 minutes driving distance)

APPROACH

Store formats

As different shop types have different assortments, it is essential that size of assortment is compared within similar store formats. The following 3 types were visited in the 4 countries :

-**Hypermarkets (floors pace >=2.500 m²)** typically have the broadest assortment among all food shops ; 20,000 Stock-Keeping Units (SKU) is a common figure for food products because of their superior shelf-space.

-**Supermarkets - 400 to 2499 m²-** typically sell 5,000 to 10,000 different food SKUs.

-**Discounters** have the narrowest assortment, typically between 1,000 and 2,000 SKUs; discount stores are characterized by limited assortment, mainly composed of private labels and a low cost market strategy.

Measure

Product assortment available on retail shelves, measured by the number of Stock-keeping units – SKUs- in the selected product categories:

DEMOGRAPHY
GRAND DUCHY OF LUXEMBURG

DEMOGRAPHY

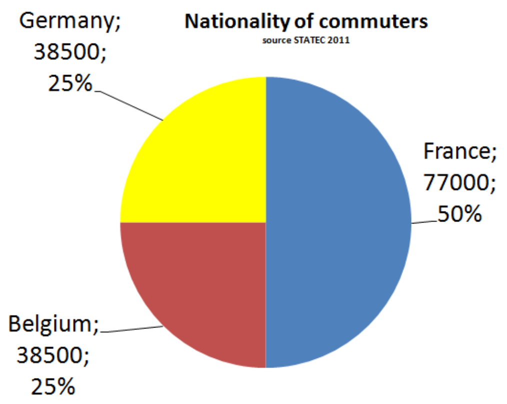
Luxembourg is small, but its **population is growing**. In 2014 it counted **550.000** inhabitants and in ten years time, 600,000 people will be living here. Purchasing power is strong in Luxemburg.

Luxembourg is also a society in flux, **with high immigration**. The proportion of '**genuine' Luxembourgers has fallen below 50%.** There is awareness of a need for more openness.

Luxemburg is characterized by multilingualism : the most common languages spoken are Luxembourgish (70.5%) , French (55.7%), German (30.6%) , English (21%), Portugese (20%) and Italian (6.2%). Luxembourgish, French and German are all recognized as administrative languages.

More than 150 000 people

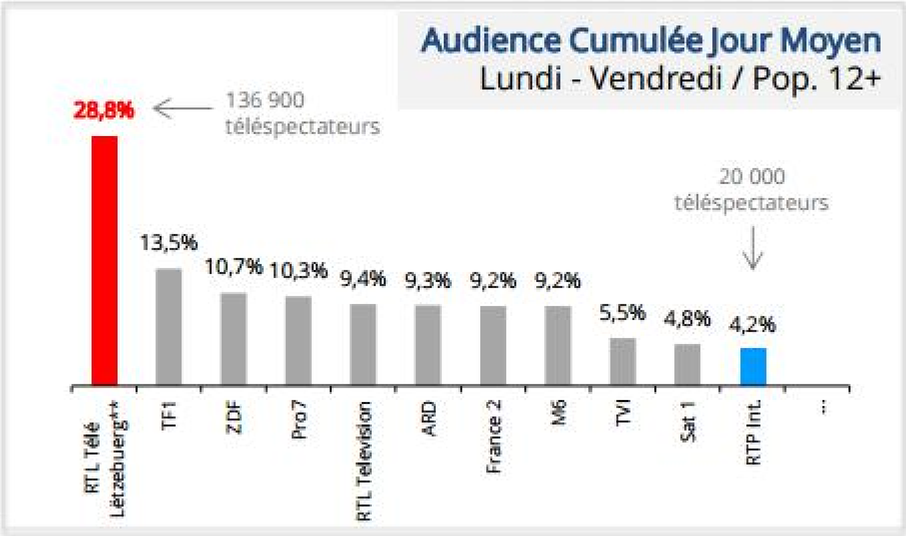
commute everyday to work in Luxemburg.



DEMOGRAPHY MULTILINGUALISM IMPLICATIONS ON THE MEDIA

Multilingualism is also reflected in the **media behavior** of the Luxemburg population; the yearly TNS ILRES plurimedia study confirms a high penetration of German and French TV-channels among residents viewers in Luxembourg.

The significant **overflow** is used by the CLC to indicate the Benelux suppliers can not respond to specific demands of the GDL shopper looking for the advertised products. From the expert interviews we learn that **all Benelux organizations are providing solutions by adding major foreign SKU** 's to the assortment accessible to the Luxemburg retailers or provide re-active solutions in case there is a sufficient potential.



DEMOGRAPHY MULTILINGUALISM IMPLICATIONS ON THE MEDIA

TNS

RESULTATS : AUDIOVISUEL

BASE : RESIDENTS AU LUXEMBOURG AGES DE 12 ANS ET PLUS SOIT 476 100 PERSONNES

Résultats exprimés en nombre d'auditeurs / téléspectateurs / spectateurs et en pourcentage de la population totale âgée de 12 ans et plus …

- ➔ *par jour moyen (Radio /TV)*
- ➔ *par semaine moyenne (cinéma)*

		En nb d'auditeurs 12 ans et plus	*En % de la population*
Radio			
	RTL Radio Lëtzebuerg	175 100	*36.8%*
	Eldoradio	93 200	*19.6%*
	RTL Radio 93,3 & 97,0 / en langue allemande	40 300	*8.5%*
	RadioLatina	25 900	*5.4%*
	Radio 100,7 (Radio socioculturelle)	21 200	*4.5%*
	Radio Ara	3 000	*0.6%*

		En nb de téléspectateurs 12 ans et plus	*En % de la population*
TV			
Chaînes luxembourgeoises :			
	RTL Télé Lëtzebuerg	119 800	*25.2%*
	Den 2.ten RTL	8 500	*1.8%*
	Air	1 400	*0.3%*
Télévision par Internet:			
	RTL Télé Lëtzebuerg via Internet	11 800	*2.5%*
Chaînes étrangères (Top 10) :			
	TF1	60 900	*12.8%*
	ZDF	51 500	*10.8%*
	Pro 7	49 900	*10.5%*
	ARD	48 700	*10.2%*
	M6	45 000	*9.5%*
	RTL Television	43 000	*9.0%*
	France 2	42 800	*9.0%*
	TVI	22 100	*4.6%*
	Sat 1	21 000	*4.4%*
	RTP Internacional (RTP1, RTP2)	19 300	*4.1%*

ECONOMY
GRAND DUCHY OF LUXEMBURG

ECONOMY

Luxembourg's economy is projected to grow by 2.6% this year, slightly below the 2014 level.

Growth was driven by strong domestic demand, which was also boosted by investment.

Looking forward, the sluggish external economic environment and the strains on the financial sector's profitability imposed by the need to adjust to the new regulatory financial standards are likely to put some downward pressure to the exceptionally high growth rates exhibited by the country.

Against this background, output growth is expected to slow down to 2.6% in 2015, before picking up again to 2.9% in 2016 when the external economic environment gradually improves

Inflation to remain low in spite of the VAT hike : falling energy prices and the absence of price pressures drove inflation down to **0.7% in 2014** from 1.7% in 2013. In 2015, the rise in VAT rates will be absorbed by the sustained fall in oil prices. Overall, HICP inflation is expected to set at **0.6% in 2015** before bouncing back to **1.8% in 2016**.

As for **labor market** developments, **in 2014, Luxembourg's domestic workforce increased at an annual rate of 2.2%.**

The **unemployment rate (7%)** - although it remains markedly low compared with the EU average- is expected to peak in 2015, and start decreasing in 2016.

GROWING POPULATION

MULTI –CULTURAL

MEDIA OVERFLOW

GROWING ECONOMY

THE RETAIL STRUCTURE
GRAND DUCHY OF LUXEMBURG

RETAIL STRUCTURE

INTRO

Increase in number of shops and commercial sales areas strongly driven by the expansion and internationalization of grocery retail groups as they look for new sources of growth over the past two decades.

Faced with the massive arrival of foreign retailers, the Luxemburg government gave in to the temptation of protectionism **and introduced in 1997 a moratorium** on the establishment and expansion of large stores of over 10,000 m² and grocery retail stores with floor space over 4000 m².

For almost a decade, formal prohibition to build another hypermarket, a grace period for Cactus and Match.

The moratorium ended in 2006 and allowed new openings (hence the Auchan Hyper stores and Colruyt).

THE RETAIL STRUCTURE OF LUXEMBURG

TRAFFIC GENERATORS
SHOPPERWARE
CONVERSION ENGINES

Cactus

The retail in Luxemburg is characterized by the presence of a leading national firm - Cactus - and the presence of several foreign distributors whose importance tends to increase.

Cactus : 42 outlets, 35% market share* (220.000 fidelity cards), 3920 employees, 750 mio € turnover

- 2 hypermarkets
- 11 supermarkets "Cactus"
- 8 small supermarkets / convenience stores "Cactus marché"
- 21 outlets on the go/petro “C-Select-Shop.
- Cactus also started an online shop.

*As there a e no offical statistics on marketshare the estimates vary from category to category between 30 % to 45%

THE RETAIL STRUCTURE OF LUXEMBURG

Cactus Luxembourg is the only company to have achieved the critical mass necessary to compete with the foreign retail groups. The firm is owned by Leesch family.

Cactus (4000) ranks fourth on the list of the biggest employers in Luxemburg , behind the Luxembourg State (25,270 employees), Arcelor Mittal (5960) BGL BNP Paribas (4110).

Inspired by the Swiss supermarket chain Migros, which as Cactus, placing on the local niche, Cactus is strongly appealing on the Luxemburg national pride, also very attentive towards the Portugese community.

Buying is done via BLOC, REWE/DOHLE/Markant, Casino France and HAGEBAU.

In 2011 Cactus was the first retailer offering delivery at home (cactus@home).

Cactus will open a hypermarket in Esch-Lallange, install a new supermarket in Bettembourg and is looking eastwards towards the villages along the A1.

Cactus has the advantage of being part of the Luxemburg society and establishments.

THE RETAIL STRUCTURE OF LUXEMBURG

Louis Delhaize Cora Match :

Belgian / French group that has been long track record in Luxemburg with an estimated market share of 25%. In general this group has some challenges with profitability in Belgium because of the fierce competition with Colruyt, Carrefour and Hard discount.

28 outlets in Luxemburg , member of the buying group PROVERA

- 2 hypermarkets Cora (Foetz, Concorde)
- 13 supermarkets Match
- 13 small supermarkets Smatch

Match indicates to have "3 to 5 projects under consideration".

THE RETAIL STRUCTURE OF LUXEMBURG

The French retailer Auchan is the number 4 in France (11% marketshare) and is a global operating retailer. The main format is the large sqm hypermarket which is so typical for French retail. They are slightly loosing market share against Carrefour and Leclerc so they are constantly looking for growth.

Auchan LU : 1 hyper market (Kirchberg, 12.500m2) , 3 Auchan Drive. Will open a 2nd hypermarket in 2017 in Luxemburg city. Furthermore there is a project for a new supermarket in Differdange. Estimated marketshare between 6% to 10%

One of the concerns of the settled Luxemburg retailers is the fact that some manufacturers supply Auchan LU via the distribution center of Auchan FR Est and others Be(ne)lux supply directly via Auchan Lu and in some cases there is a mix of both supply channels. Auchan Lu in stock up baskets strong household and personal categories.

THE RETAIL STRUCTURE OF LUXEMBURG

Delhaize Le lion is a leading Belgian retailer and also operating in US, Balkan and Asia.

In GDL they have 43 outlets, estimated 16% market share, 400 employees, most close positioned to Cactus (somewhat premium)

- 11 supermarkets of which 4 AD Delhaize (affiliates)
- 10 Proxy Delhaize (local supermarkets)
- 3 City Delhaize
- 16 Shop 'n Go (convenience stores in association with Q8)
- In addition, Delhaize has also 3 stores Tom & Co in Luxembourg

THE RETAIL STRUCTURE OF LUXEMBURG

During the period of moratorium on very large areas, Delhaize passed below the 10,000 m2 floor space by focusing on small structures, thus setting up a vast network of shops a few years before the trend towards local became visible.

Delhaize intends to continue its development in GDL , in market share and in number of outlets e.g. Delhaize will participate in the Royal Hamilus project , a large retail project in Luxemburg city that will start this year and that will include a 9,500 m² galleria inno department store, a Delhaize supermarket and 15 individual shops.

Colruyt , the number one in Belgium with lowest price positioning opened its first store in 2008, now there are **3 supermarkets.**

Colruyt wants to "complete its position in the Grand Duchy" with 3 or 4 new stores.

The general impression is that the Colruyt format is not as easily accepted by the service and premium oriented Luxemburg shoppers. Of course the Colruyt has a strong reputation among the Belgian households and will attract cross border from Belgium.

THE RETAIL STRUCTURE OF LUXEMBURG

Carrefour n° 2 global retailer has 1 supermarket (Marnach), opened its first convenience store Carrefour Express in Luxemburg city october 2014, offering a wide selection of Luxembourg and Portugese brands, 2 other Express store are planned.

The 3 Alima stores (Bourse, station, Belair) are part of the purchasing group Incom

3 supermarkets Pall Center are present in Oberpallen, Echternach and Steinsel.

Note : the independent retailers Alima, Pall Center, Massen recently reunited their forces in the alliance ‘Les Épiceries du Luxembourg’ (former Incom group)

Massen : 1

THE RETAIL STRUCTURE OF LUXEMBURG

MONOPRIX

Monoprix : 1 store (1500 m2), Monoprix also counts to enter into a logic of expansion, "perhaps with bio sign”. The MONOPRIX format sells a mix food and apparel (fashion)

The German Discount stores have experienced the highest growth in terms of outlets over the past decade.

Aldi now counts 13 stores

-Lidl owns 5 discounts and wants to open 8 new stores at mid term. Note that all Benelux manufacturers supply goes via Lidl Belgium.

THE RETAIL STRUCTURE OF LUXEMBURG

E commerce – on line shopping - drive

Cactus@Home (www.cactusathome.lu) and Luxcaddy (www.luxcaddy.lu) grocery shopping online with home delivery service (within a pre-defined delivery cost).

Auchan drive (www.auchandrive.lu) : shopping online and then schedule the pick up at one of the Auchan Drive warehouses (Munsbach or Cloche D'Or – Gasperich). Free of charges, every day of the week, including Sundays.

Delhaize Direct (www.delhaizedirect.lu) : shopping online, pick up at the closest shop

THE RETAIL STRUCTURE OF LUXEMBURG

PETROL STATIONS

Key European motorways run through Luxembourg and together with the lower fuel taxes compared to the neighbour countries, all the major players have key fuel service stations operating in this country.

Currently the sector employs some 2.100 people across **250** service stations of which approx **80% have a shop** - sometimes in combination with distribution specialists who often sell a limited range of food products (beverages, sandwiches, snacks, ... plus some food) and a range of tobacco products, wines and spirits.

These service stations stores mainly attract truckers, tourists and Belgian, French and German frontier workers, because of the favorable prices on fuel and tobacco but also Luxembourg customers seeking, as in other countries, the advantages of proximity and speed (these stores enjoy privileges in terms of opening hours ; some are open 24h / 24h).

THE RETAIL STRUCTURE OF LUXEMBURG

PETROL STATIONS

The petro channel has **suffered of the economical breakdown in 2008/2009**; the decline in traffic has clearly impacted this channel together with the fact that price gap for cigarettes and fuel compared with the other countries has decreased.

The European Commission recently criticized Luxembourg for its low taxes on fuel which, according to them, eventually leads to increased levels of pollution in the country due to “fuel tourism.

However it is not likely to see fuel taxes rise soon in Luxemburg as, in reply to the European Commission’s report last year, former Prime Minister Jean-Claude Juncker firmly stated that **“fuel prices will not increase in Luxembourg”** and that such a policy was "not suitable for our country".

THE RETAIL STRUCTURE OF LUXEMBURG

PETROL STATIONS

The petro channel has **suffered of the economical breakdown in 2008/2009**; the decline in traffic has clearly impacted this channel together with the fact that price gap for cigarettes and fuel compared with the other countries has decreased.

The European Commission recently criticized Luxembourg for its low taxes on fuel which, according to them, eventually leads to increased levels of pollution in the country due to “fuel tourism.

However it is not likely to see fuel taxes rise soon in Luxemburg as, in reply to the European Commission’s report last year, former Prime Minister Jean-Claude Juncker firmly stated that **“fuel prices will not increase in Luxembourg”** and that such a policy was "not suitable for our country".

VAT RATES

	Germany	France	Belgium	Luxemburg
food categories	7,00%	5,50%	6,00%	3,00%
alcoholic drinks	19%	20,00%	21%	15%
Alcools	19%	20%	21%	17%
Vins	19%	20%	21%	14%
Bieres	19%	20%	21%	17%
Eau Minerale	19%	5,50%	6%	3%
Limonade	19%	5,50%	6%	3%
Jus de fruits	19%	5,50%	6%	3%

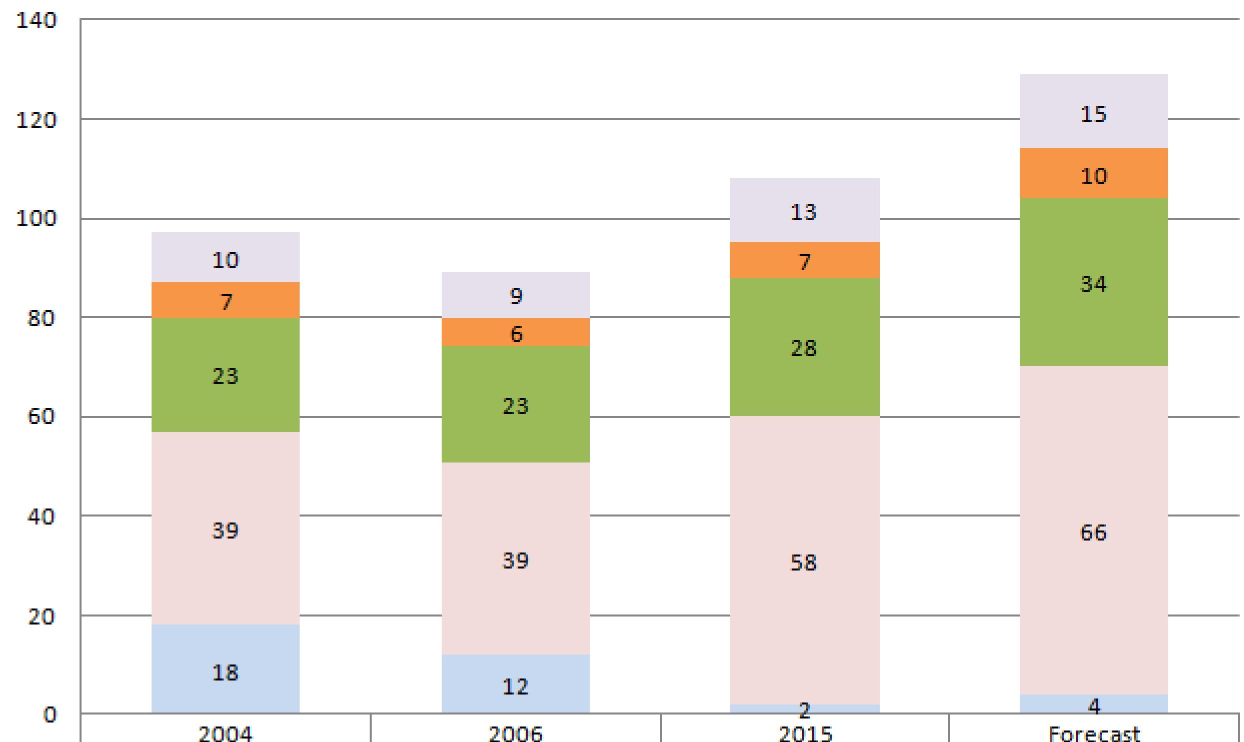
	Germany	France	Belgium	Luxemburg
Petrol unleaded	19%	20%	21%	17%
Diesel	19%	20%	21%	17%
GPL	19%	20%	21%	8%

source European Commission 1/2015

THE RETAIL STRUCTURE OF LUXEMBURG

TRAFFIC GENERATORS SHOPPERWARE CONVERSION ENGINES

The retail structure in Luxemburg by format



	2004	2006	2015	Forecast
Hypermarket 2 500 m² +	10	9	13	15
Supermarket 2 000-2 499 m²	7	6	7	10
Supermarket 1 000-1 999 m²	23	23	28	34
Supermarket 400-999 m²	39	39	58	66
Convenience 200-399 m²	18	12	2	4

Source 2004/2006 : Statec , 2015 : deskresearch Shopperware

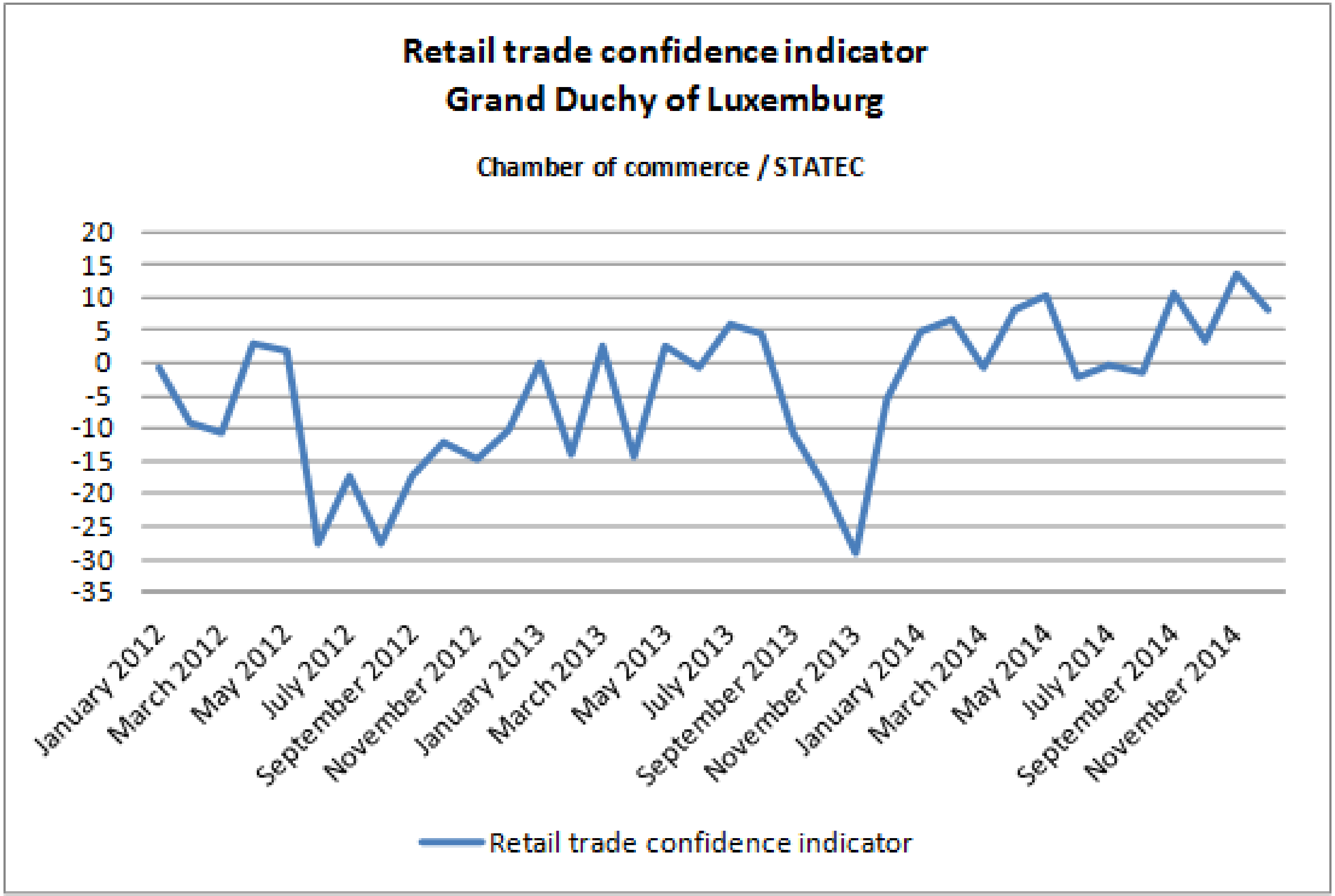
COMPETITION IS INCREASING
PRICE WAR

LUXEMBURG CONSUMERS BENEFIT

THE RETAIL MARKET EVOLUTION
GRAND DUCHY OF LUXEMBURG

33

RETAIL TRADE EVOLUTION CONFIDENCE INDICATOR



RETAIL TRADE EVOLUTION IN LUXEMBURG

INCREASED COMPETITION AND STAGNATING SALES

It is clear that the arrival of new entrants on the food retail market in GDL has impacted the competition and prices. The total **FMCG market is not growing** in spending which means that the growth in sales is only possible by gaining market share.

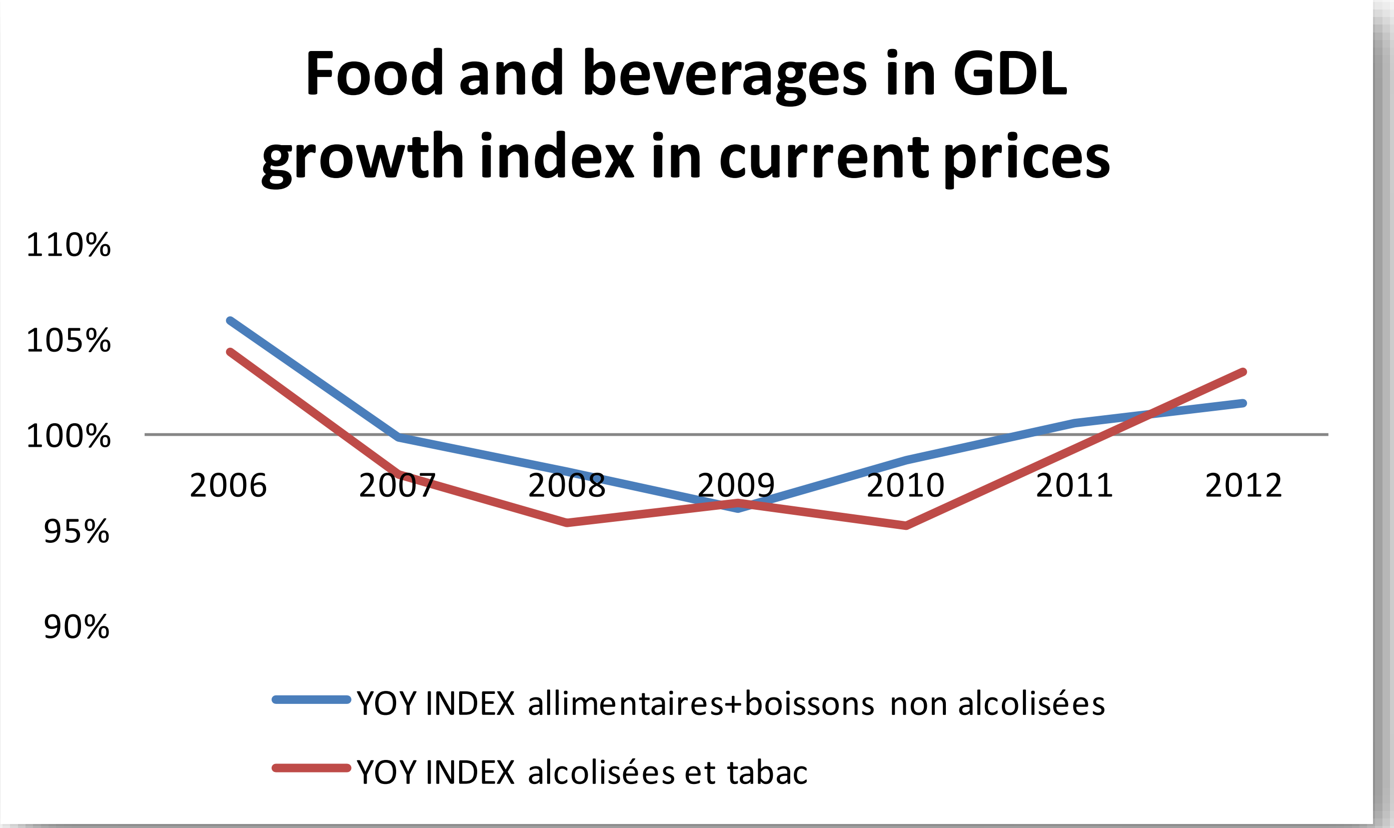
As proximity is the number one driver of retail sales this means that with every additional retailer entering the GDL territory it will lead to decrease of marketshare for another point of sales.

The table below from the Luxemburg Statistical institute illustrates that the market in Grand Duchy of Luxemburg stagnated in current prices between 2013 (109,4) and 2012 (109,5). This a very similar with the situation in Belgium.

RETAIL TRADE EVOLUTION IN LUXEMBURG

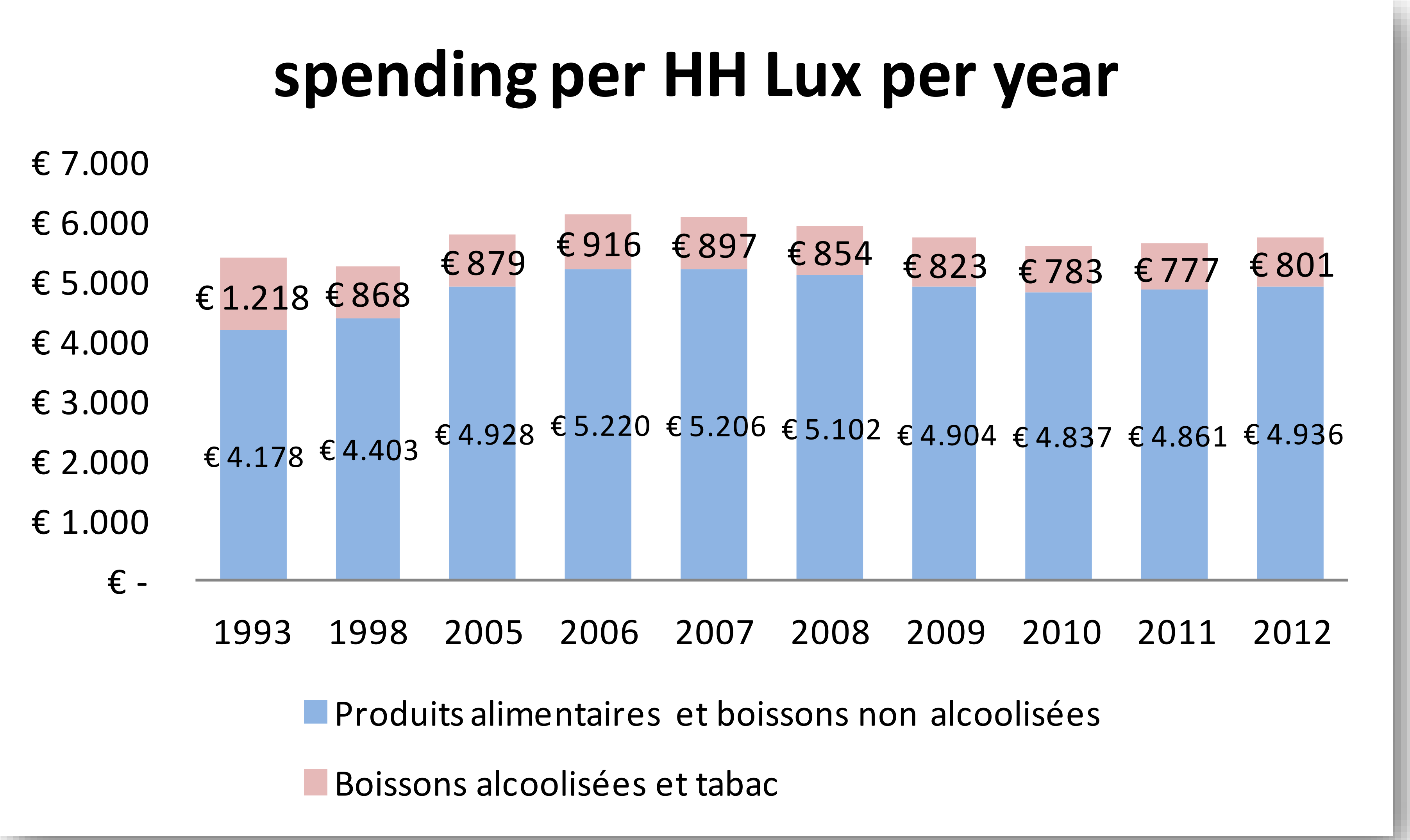
INCREASED COMPETITION AND STAGNATING SALES

The table below from the Luxemburg Statistical institute illustrates that the market in Grand Duchy of Luxemburg stagnated in current prices between 2013 (109,4) and 2012 (109,5). This a very similar with the situation in Belgium.



THE EVOLUTION OF RETAIL IN LUXEMBURG

TRAFFIC GENERATORS
SHOPPERWARE
CONVERSION ENGINES



THE EVOLUTION OF RETAIL IN LUXEMBURG

DECREASE OF THE MARKET IN CONSTANT PRICES

The table below illustrates that the prices corrected for inflation show that there is a decline in 2013 versus 2012 and 2011. This **decrease of the total market in constant prices ,** the increased number of point of sales and increased promotional pressure will have affected operating margins of retailers operating in the Grand Duchy of Luxemburg.

The **price war among retailers** has also influenced the decrease in constant prices.

STATEC
Institut national de la statistique
et des études économiques
Luxembourg

Edition of March 18, 2014 N°12/2013

INDICATEURS RAPIDES - SÉRIE O

Turnover index in retail trade, except of motor vehicles and motorcycles

Year	January	February	March	April	May	June	July	August	September	October	November	December	Average of months 1-12	Annual average
At constant prices (average 2010 = 100)														
Retail sale of food, beverages and tobacco (Nace Rev.2: G47_FOOD)														
2011	95,0	90,0	101,6	108,6	102,5	105,0	105,3	90,8	98,7	107,0	102,5	131,3	103,2	103,2
2012	94,2	94,5	107,1	106,0	103,9	104,1	102,8	94,7	99,6	106,9	104,7	131,2	104,1	104,1
2013	95,5	88,7	104,8	100,3	101,3	99,6	104,8	92,5	92,3	103,6	101,6	124,0	100,8	100,8
Retail sale of food, beverages and tobacco in specialised store (Nace Rev.2: G472)														
2011	88,7	87,4	99,0	105,5	109,3	104,6	115,8	86,4	96,0	98,6	103,4	126,8	101,8	101,8
2012	97,1	92,3	102,8	96,0	110,8	110,5	106,7	91,7	98,7	105,1	107,4	124,2	103,6	103,6
2013	92,8	89,1	106,7	100,9	111,1	110,4	115,1	87,3	96,5	110,2	106,0	123,7	104,2	104,2

Monthly publication printed by STATEC

CONSUMER PRICES DECREASE

LESS OLIGOPOLY

RETAIL SQM INCREASE

EXPERT INTERVIEWS

Expert Interviews

Expert Interviews		
represented categories	Global A brands	European/national A brands
dry foods (epicerie)	3	1
Personal care	1	
Home care	1	1
Chilled (dairy / cheese)	3	
Softdrinks /waters / juices	3	1

Expert Interviews		
	Global A brands	european/national A brands
manufacturers	5	2
respondents	11	3

TERRITORIAL RESTRICTIONS OR NOT ?
Buying at lowest price

Based on the expert interviews with a number of leading manufacturers all of which are supplying the GDL market via a Benelux or Belux operation this must be denied.

Retail leading : In many cases the retailers who are active on the GD Luxemburg market **don't want to add complexity** and demand the most effective supply and logistics process.

Auchan LU is delivered in some cases (PDH)via Auchan France and thus via the East France distribution center. However for some specific categories or segments the Belux manufacturer is delivering directly to Auchan Lu or a mix of both channels

Delhaize, Colruyt , Alvo receive the merchandise via the normal logistical flows and condition are not separately negotiated for Luxemburg but are part of the bigger Market. On specific demand the manufacturers offer exclusivities or see to it that some key French SKU or German SKU's can be listed by the retailer.

There is a general feeling that the retailers are only open to these SKU's if there is a real potential and if it does not add to much complexity leading to inefficiencies and costs.

TERRITORIAL RESTRICTIONS OR NOT ?
Buying at the lowest price

The leading retailer **Cactus** accesses through alliances access to French (Casino) or German merchandise (Rewe) . From the expert interviews we learn that conditions given by the Benelux suppliers are very competitive. There is a sentiment that Auchan LU has a better buying margin and so will be able to offer at low prices. Of course Auchan is a global player and it has economies of scale.

Cora hypermarket is supplied directly by the manufacturers or in some cases via Cora France.

Match runs through Provera.

In general brand manufacturers are delivering extra services that do they not quote for , logistic cost of small drops, listing foreign products. And invest in some cases in specific merchandisers or sales reps support not always in proportion to the size of the market.

TERRITORIAL RESTRICTIONS OR NOT ? LIMITED ASSORTMENTS

85% OF THE RESPONDENTS SAY TO OFFER BELGIAN ASSORTMENT + MOST IMPORTANT SKU'S GERMANY FRANCE

15% WILL INVESTIGATE THE POTIANTIAL AND CONSUMER DEMAND.

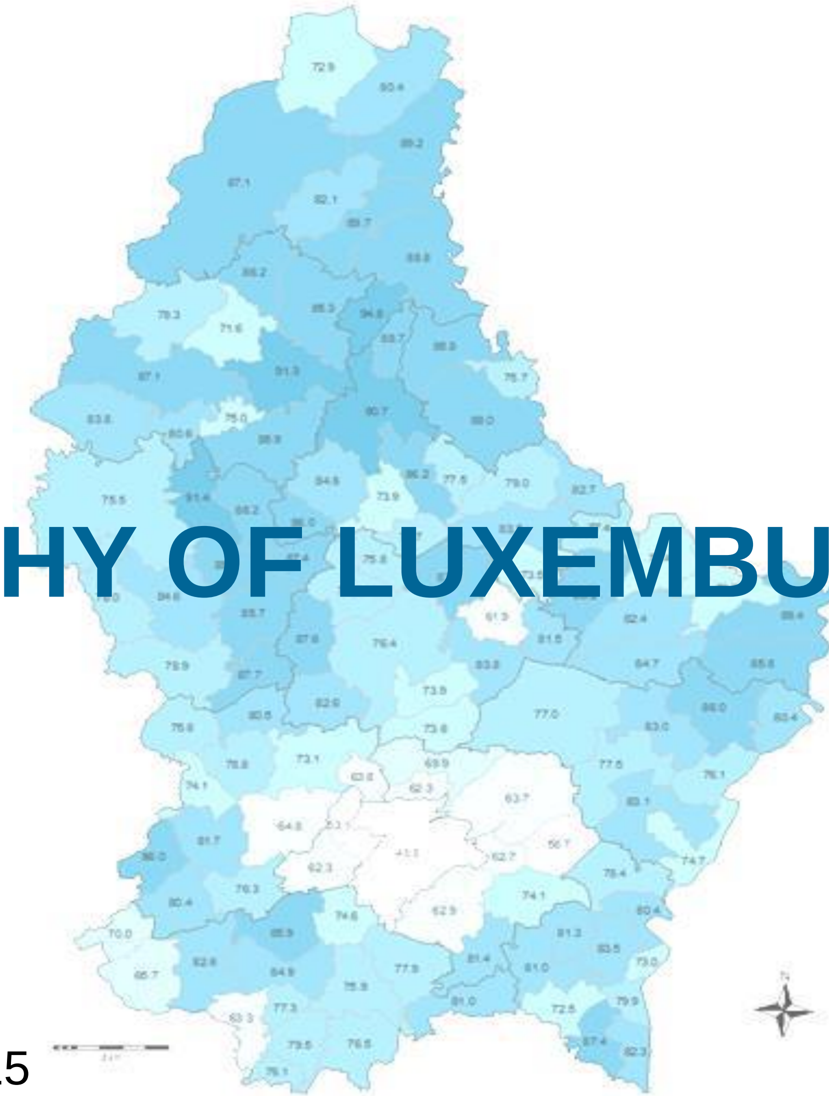
- Most manufacturers pro-actively list a number of major foreign SKU's , exclusive products for the Luxemburg market . Some manufacturers will reactively offer the requested foreign SKU ' if there is a valid potential. Timing can be an issue in some cases in case of advertisement or promo campaign.

- There is no territorial limitation as retailers can purchase the foreign SKU's merchandise via wholesale, importers or brokers.

TERRITORIAL RESTRICTIONS OR NOT ?
LIMITED ASSORTMENTS

CASE AUCHAN SUPPLY ROUTES

- Belux manufacturers supply only a specific products to Auchan Lu
- Belux manufacturers supply everything to Auchan Lu
- Belux manufacturers do not deliver merchandise to Auchan LU but everything runs through Auchan FR.



GRAND DUCHY OF LUXEMBURG

RECOMMENDATIONS

Shopperware 30 March 2015
for AIM / BABM Knowledge Center

REASON TO BELIEVE WHY THE ALLEGATION IS WITHOUT OBJECT

INTERREGIONAL PRICE COMPARISON REPORT
A JUMP INTO CONCLUSIONS

TRAFFIC GENERATORS
SHOPPERWARE
CONVERSION ENGINES

'Sur initiative du Vice-Premier ministre, ministre de l'Économie, Étienne Schneider, et vu le préjudice subi par le secteur de la distribution, en particulier au Luxembourg et en Belgique, un groupe de travail composé d'experts originaires des États membres du Benelux s'est réuni en date du 15 janvier 2015 à Bruxelles afin d'analyser la problématique liée aux restrictions territoriales de l'offre. La situation actuelle entraîne une double pénalisation: en matière de prix (impossibilité de s'approvisionner aux meilleurs prix) et en matière d'offre (disponibilité limitée de produits). Ces contraintes sont source de surcoût pour les différents distributeurs nationaux'

TERRITORIAL RESTRICTIONS ON SUPPLY

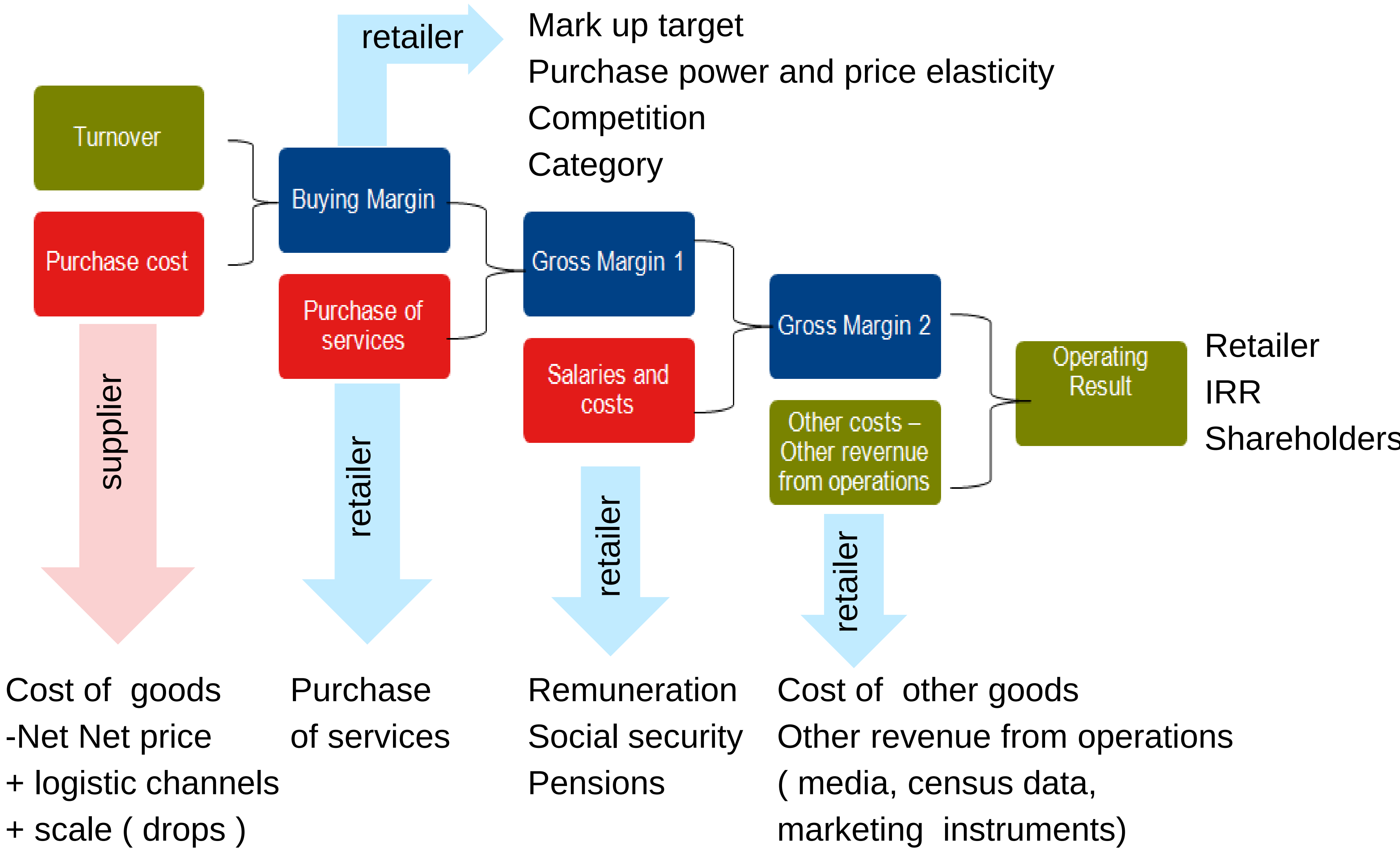
- Prevents buying at lowest price
- Limited availability of products

DECOMPOSITION OF CONSUMER PRICES

49

KEY QUESTION
HOW TO TACKLE THE FINAL CONCLUSION IN THE 4 FRONTIERES REPORT – GDL

CONSUMER PRICES ARE DIFFERENT BETWEEN COUNTRIES AS THEY ARE BETWEEN RETAILERS

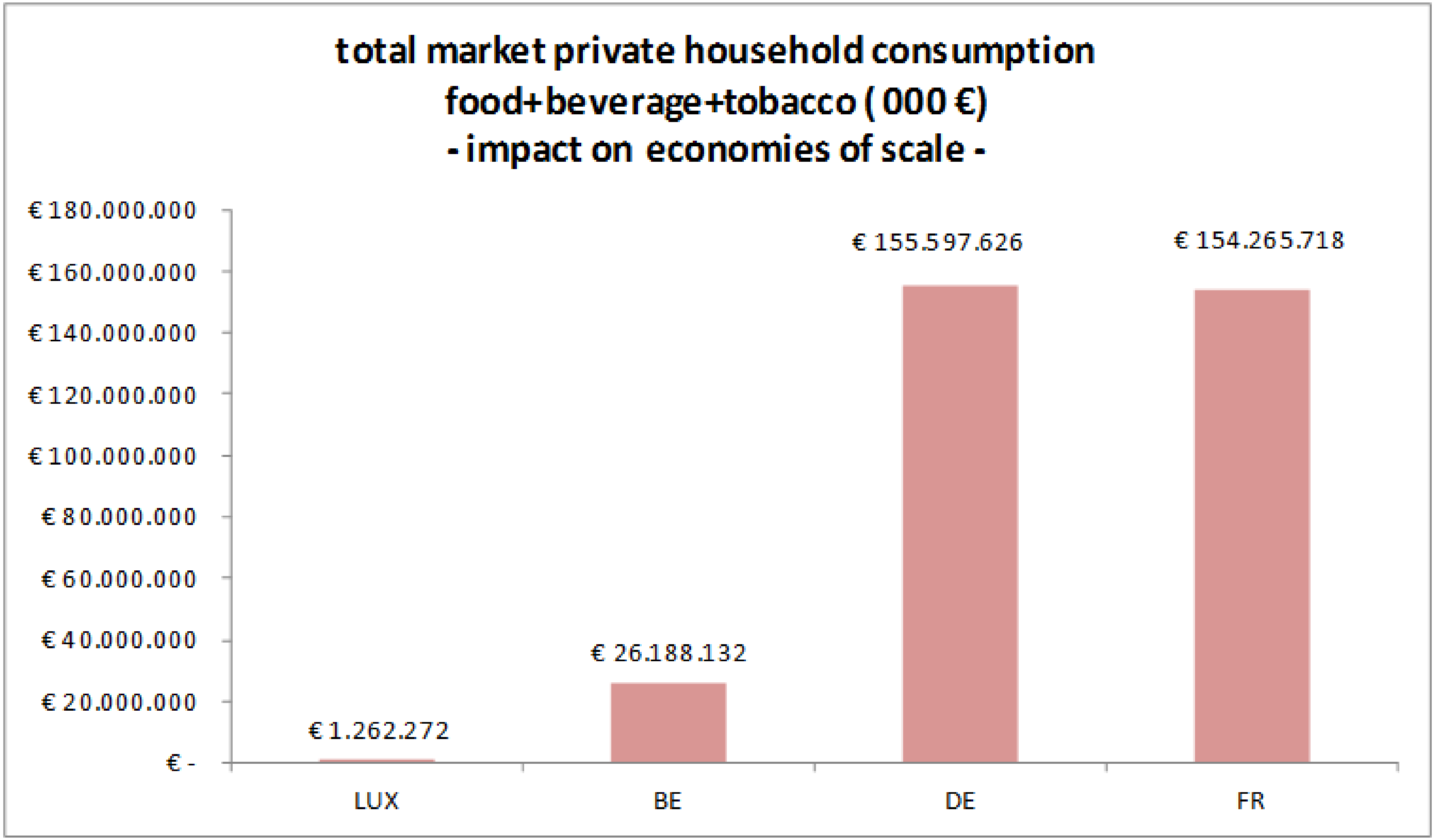


KEY QUESTION

HOW TO TACKLE THE FINAL CONCLUSION IN THE 4 FRONTIERES REPORT – GDL

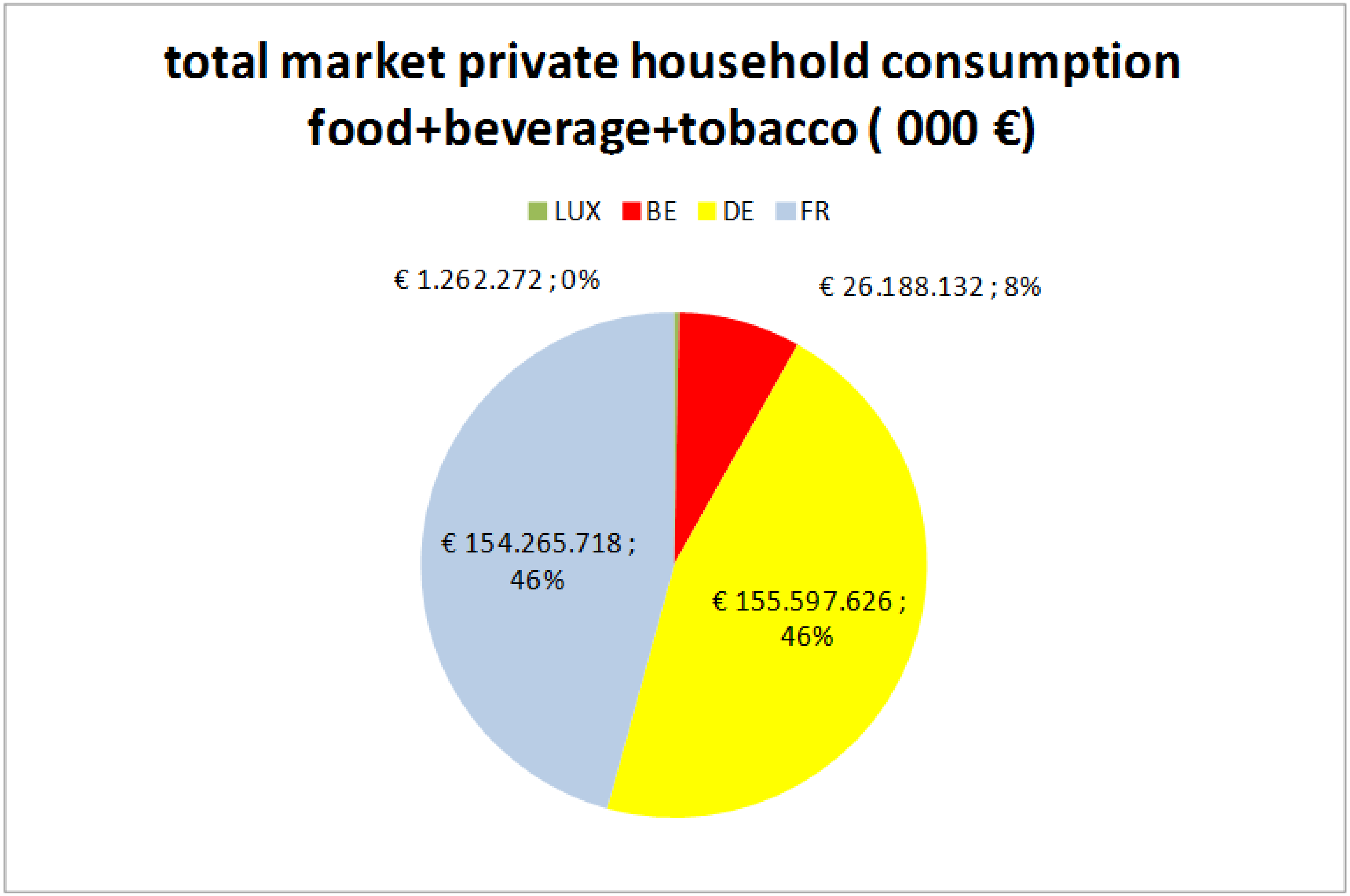
ECONOMIES OF SCALE

Economies of scale
private household consumption (residents)



Source EUROSTAT

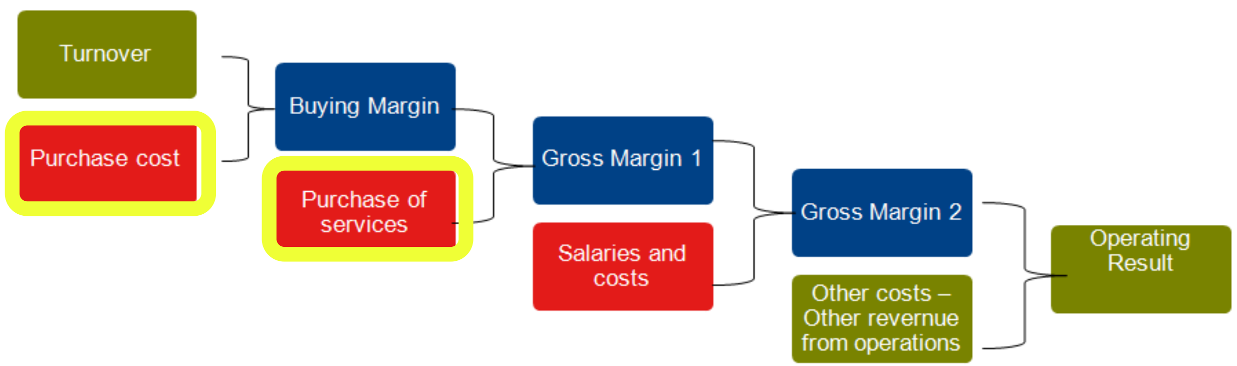
Economies of scale
private household consumption (residents)



Source EUROSTAT

SUPPLY CHAIN AND LOGISTIC COSTS
(BOTH FOR SUPPLIER AS RETAILER)

ARE HIGHER
FIXED COST ARE ALLOCATED
ON SMALL VOLUMES
(BREAK EVEN POINT)



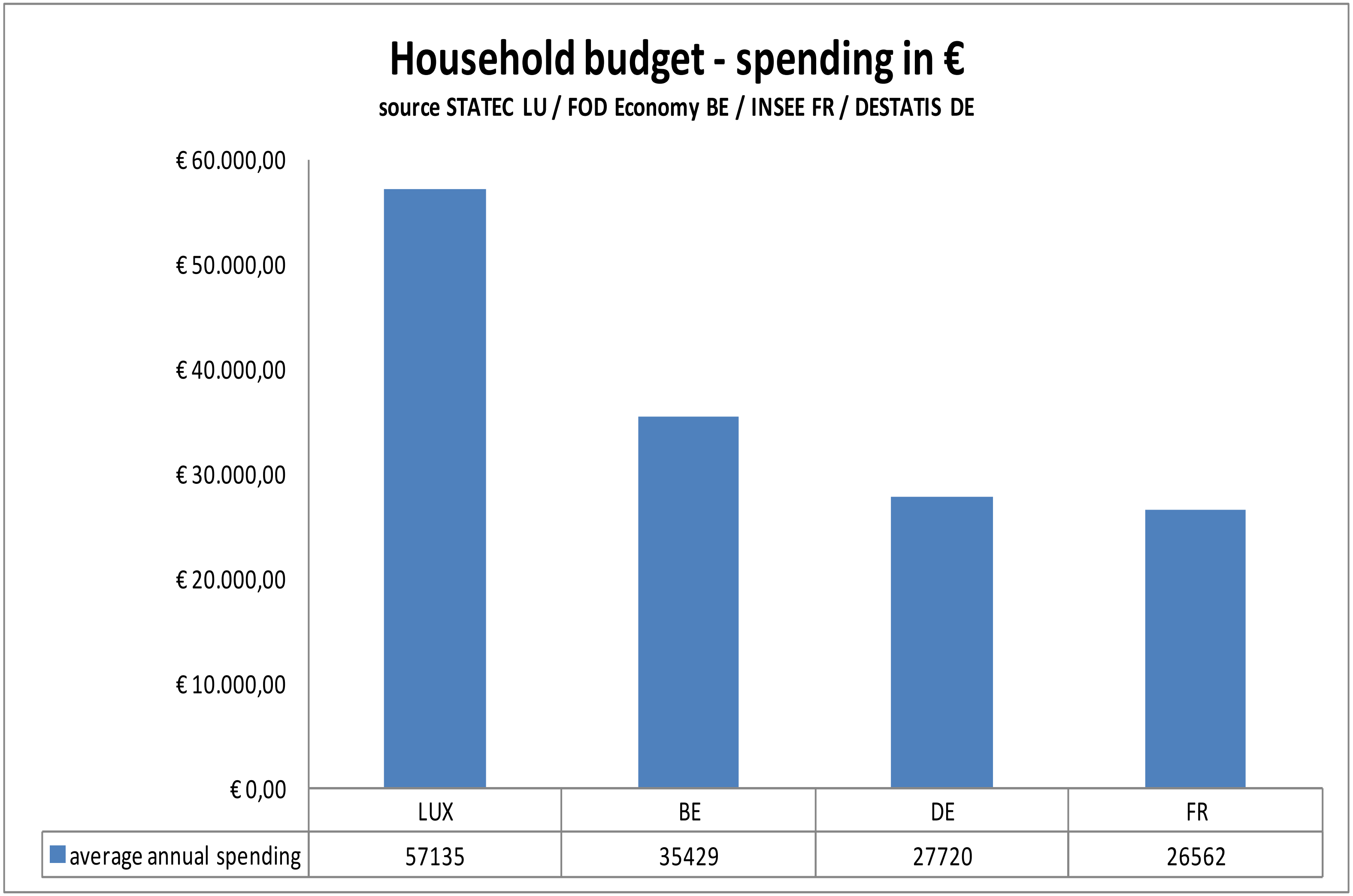
INDEPENTLY FROM USING FRENCH , GERMAN OR BELGIAN SUPPLY CHAINS
FIXED COST WILL REMAIN HIGH BOTH FOR RETAILERS AS FOR SUPPLIERS

KEY QUESTION
HOW TO TACKLE THE FINAL CONCLUSION IN THE 4 FRONTIERES REPORT – GDL

PURCHASE POWER

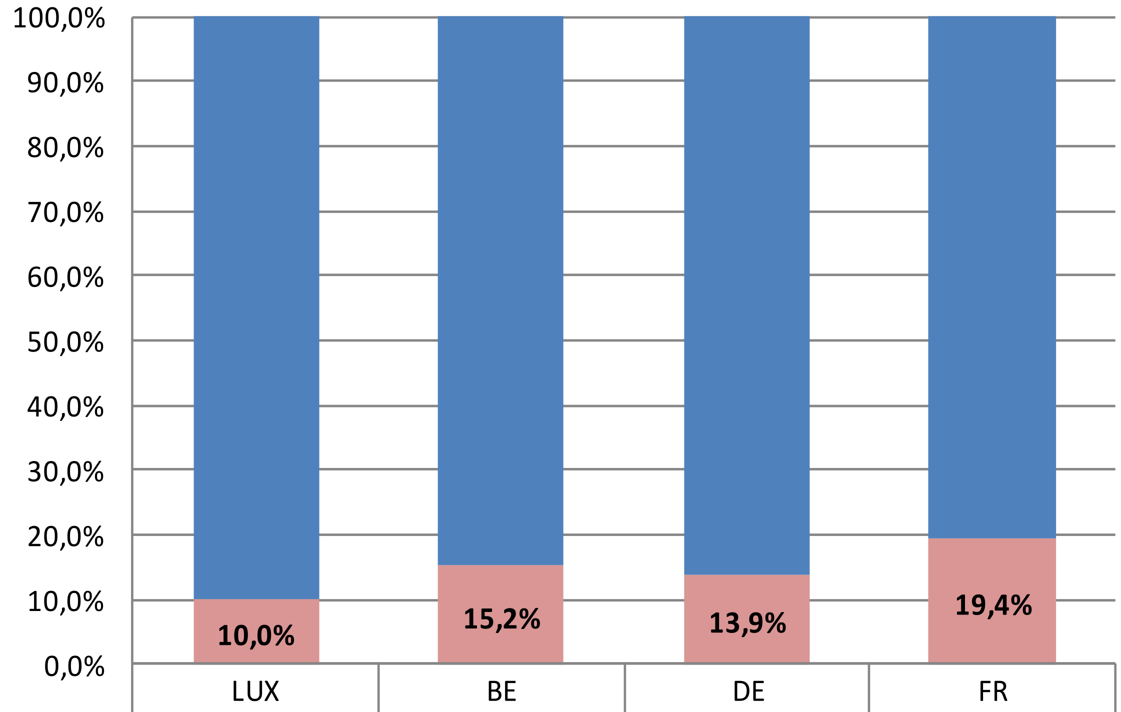
Household budget

Household total spending is 2 times as high compared to France



Household budget
GDL households need to spend only 10% on Food / Beverages

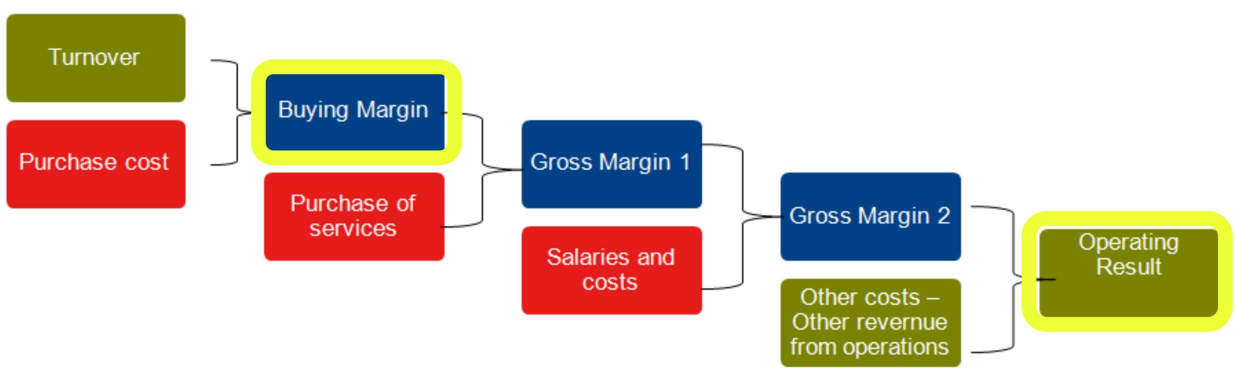
Spending on food drinks and tobacco as a percentage of total spending



	LUX	BE	DE	FR
Other household spendings	90,0%	84,8%	86,1%	80,6%
spending on food+drinks+tobacco as % percentage of the household avg annual spending	10,0%	15,2%	13,9%	19,4%

RETAILER MARGINS ARE HIGHER IN COUNTRIES WHERE PURCHASE POWER IS HIGH

(AS PRICE ELASTICITY IS SMALLER)



KEY QUESTION
HOW TO TACKLE THE FINAL CONCLUSION IN THE 4 FRONTIERES REPORT – GDL

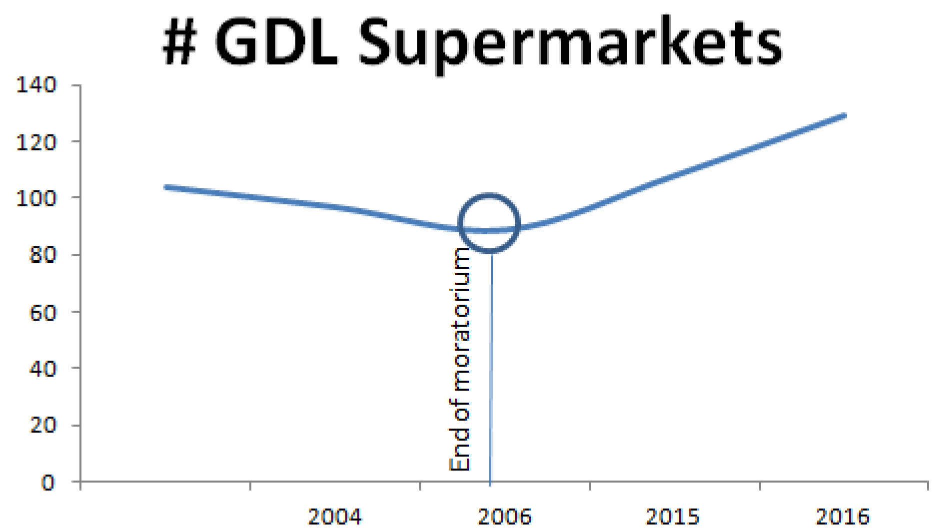
COMPETITING RETAILERS

From an oligopolic situation

Until 2006 (end of the moratorium) the number of supermarkets decreased. For the retailers this meant less price competition and higher than industry average (3,5%) operating profits*

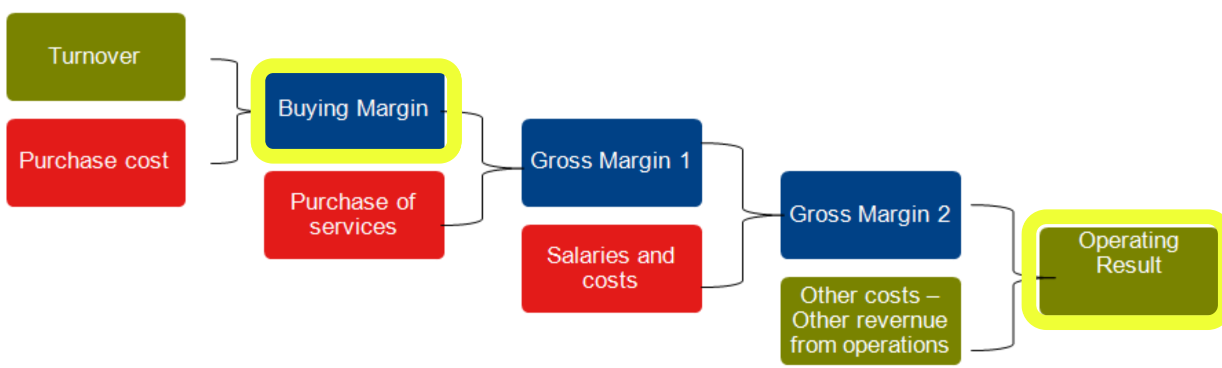
To competition

After 2006 hard discounters , Colruyt , Carrefour, Monoprix, Auchan entered the market.



* This a hypothesis based on the expert interviews – no annual report could be found for Cactus , Match GDL

HISTORICALLY RETAILER MARGINS ARE HIGHER IN LUXEMBURG



KEY QUESTION

HOW TO TACKLE THE FINAL CONCLUSION IN THE 4 FRONTIERES REPORT – GDL

IMPACT OF GROSS SALARIES

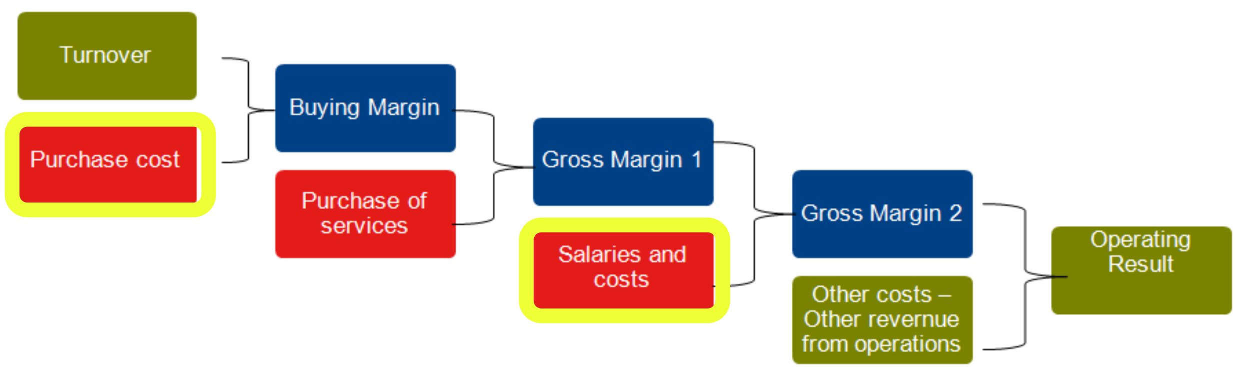
Gross salaries and consumer prices
Retailers cost of labor impacts consumer prices

	average Net- income €	gross salary (patronale bijdrage, inkomstenbelasting, sociale zekerheidsbijdrage werknemer)	Gross salary €	Handicap of Belgium versus
BE	26499	2,31	61212,69	
LUX	36609	1,61	58940,49	
SWE	32769	1,75	57345,75	
NL	31458	1,76	55366,08	11%
FRA	25339	2,18	55239,02	11%
AT	25126	2,13	53518,38	
GER	27128	1,97	53442,16	15%
DEN	32812	1,61	52827,32	
FIN	29429	1,73	50912,17	
UK	32759	1,46	47828,14	

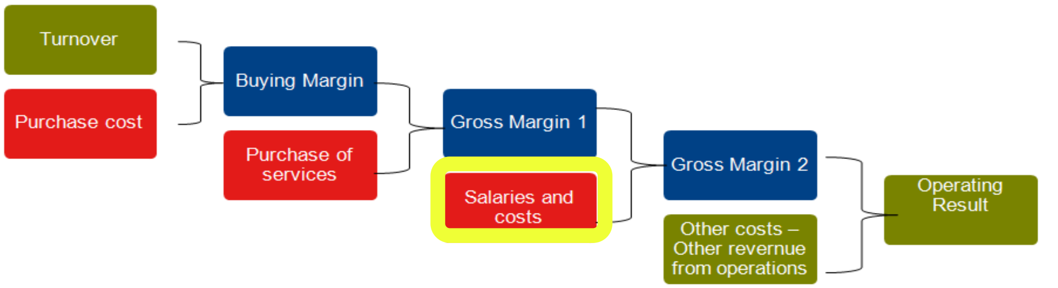
source Trends 28 aug 2014 , Institut Economique Molinari

	GDL	BE	F	D
Price level 4 Frontières GDL =100		103,2	97	91,4
Gross Salary €	58941	61213	55239	53442
Gross Salary GDL =100		103,9	93,7	90,7

Source Nielsen / Institut Economic Molinari / Shopperware



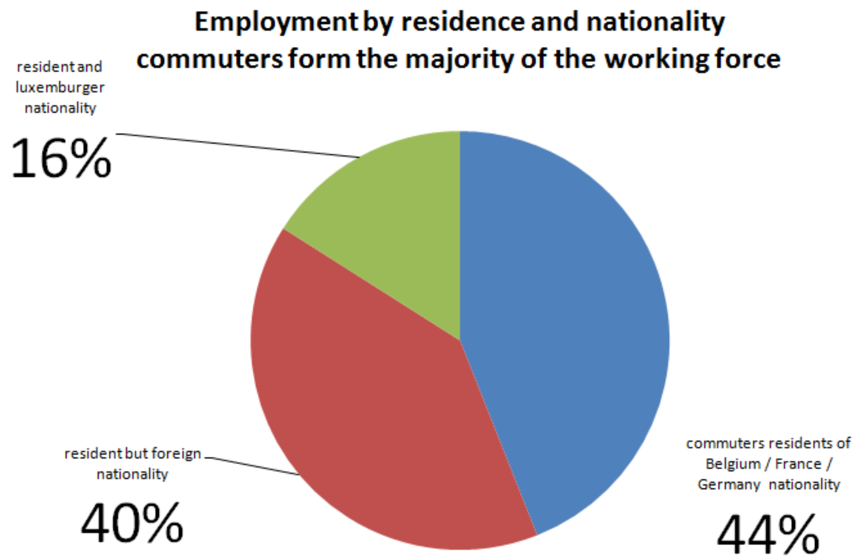
LABOR COSTS ARE HIGHER IN LUXEMBURG COMPARED TO FRANCE AND GERMANY



KEY QUESTION
HOW TO TACKLE THE FINAL CONCLUSION IN THE 4 FRONTIERES REPORT – GDL

CROSS BORDER

INBOUND AND OUTBOUND CROSSBORDER
Luxemburg benefits from crossborder purchases



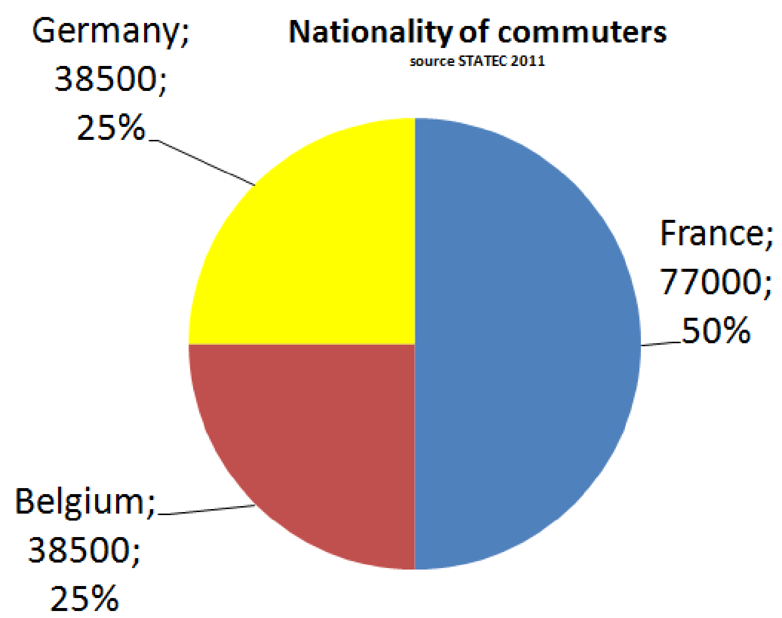


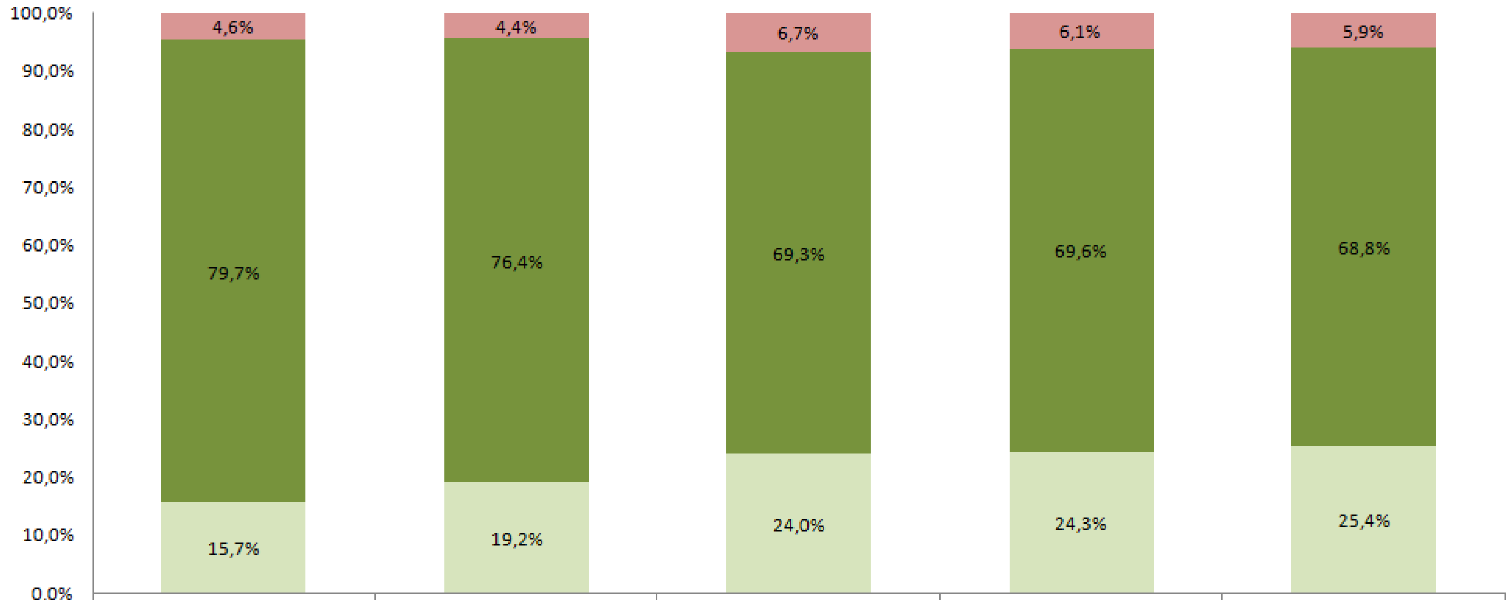
Table 1: Final household consumption expenditure (current prices)

	1995	2000	2005	2010	2011
On Luxembourg territory, total	7,195	10,249	12,583	14,926	15,899
By Luxembourg residents, abroad	350	477	899	971	993
By non-resident households, on Luxembourg territory	1,181	2,059	3,233	3,856	4,284
By Luxembourg residents, on Luxembourg territory and abroad	6,364	8,667	10,248	12,041	12,608

Source: Statec (2012) National Accounts. http://www.statistiques.public.lu/stat/TableViewer/tableView.aspx?ReportId=1440&IF_Language=eng&MainTheme=5&FldrName=2&RFPath=22

INBOUND AND OUTBOUND CROSSBORDER
Luxemburg benefits from crossborder purchases

INBOUND AND OUTBOUND CROSS BORDER CONSUMPTION EXPENDITURE



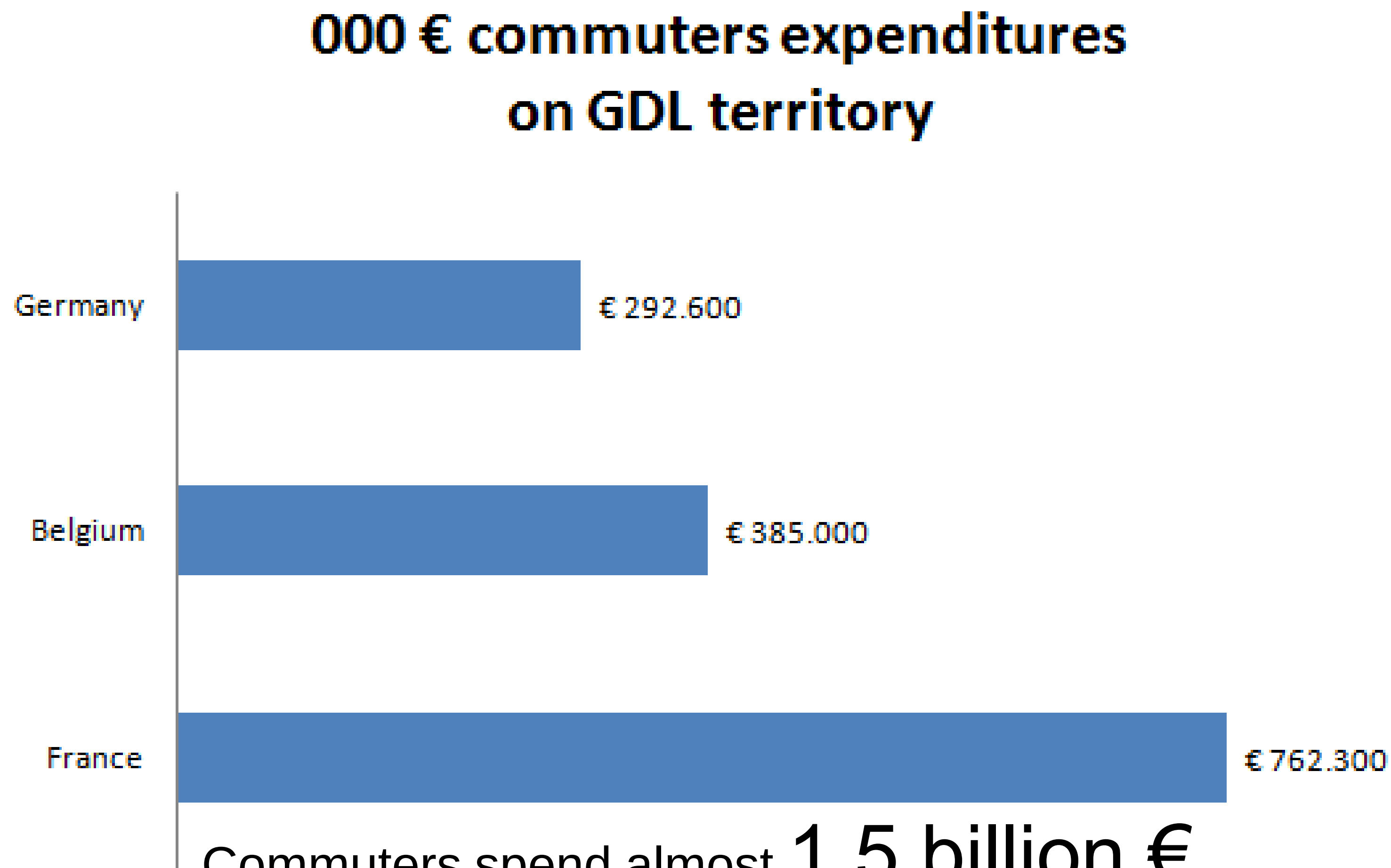
	1995	2000	2005	2010	2011
By luxemburg residents abroad	4,6%	4,4%	6,7%	6,1%	5,9%
By luxemburg residents on LUX territory	79,7%	76,4%	69,3%	69,6%	68,8%
non resident households on LUX territory	15,7%	19,2%	24,0%	24,3%	25,4%

Source STATEC 2011

The % of total expenditure spend abroad decreases 2005 – 2011

The commuters (inbound cross border) spending grows and reaches >25%

INBOUND AND OUTBOUND CROSSBORDER
Luxemburg benefits from crossborder purchases



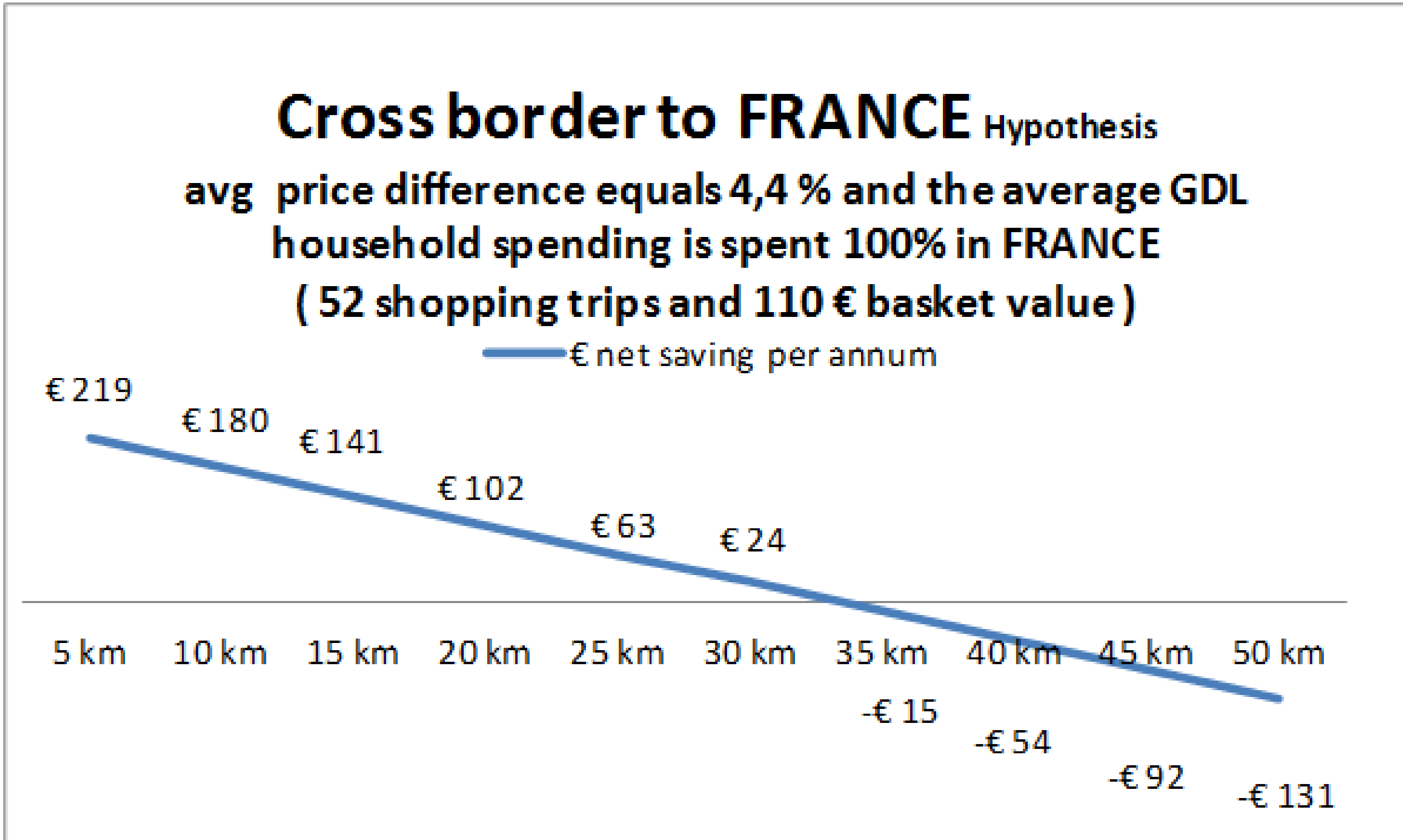
Commuters spend almost 1,5 billion €
on the territory of GDL

POTENTIAL NET SAVING FOR GDL RESIDENTS SHOPPING IN FRANCE OR GERMANY

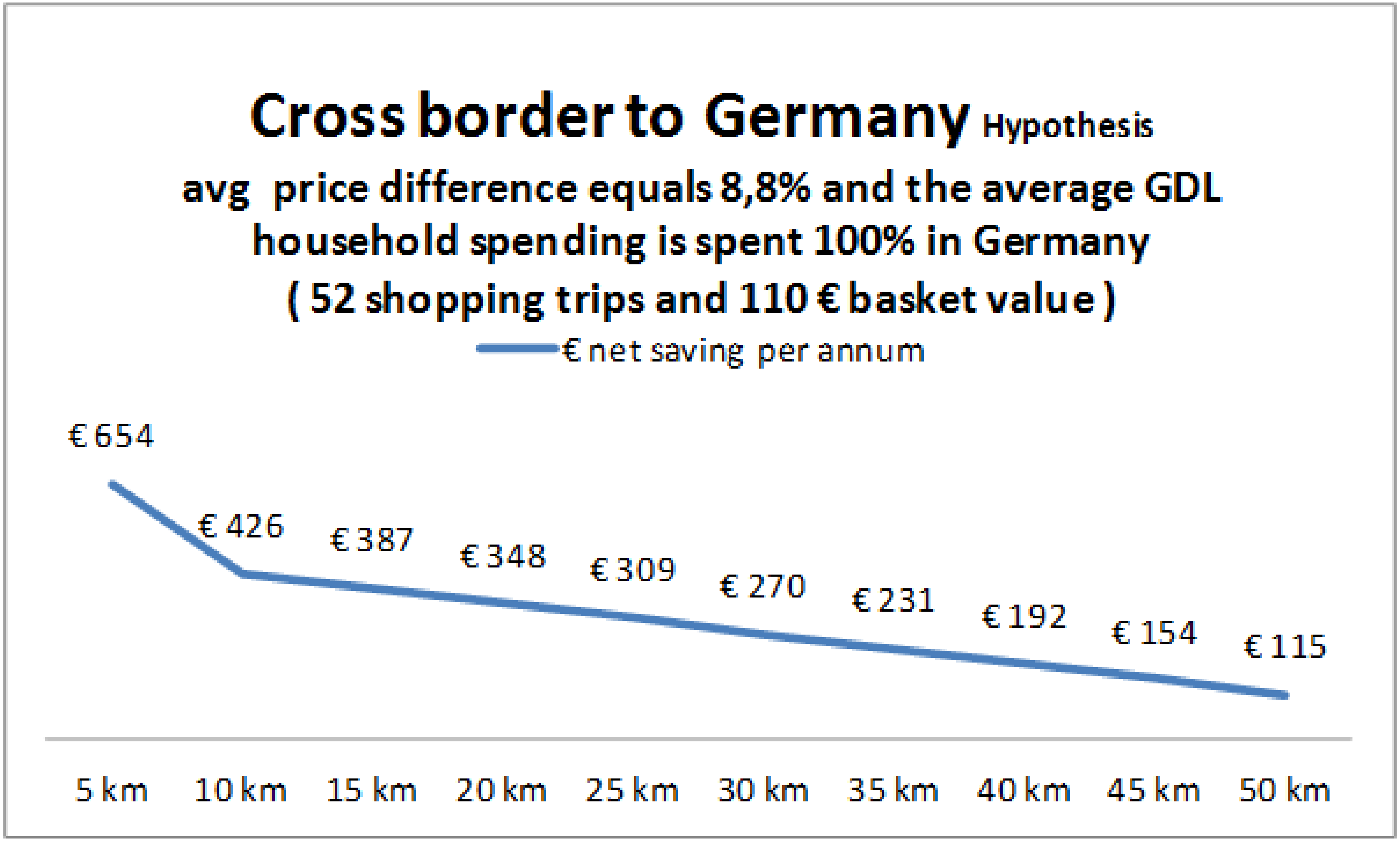
What is the maximum net saving that can be realized when shopping in France , Germany or Belgium.

Simulation of **the net saving per annum** if a Luxemburg Households would do all spending in France. The simulation model calculates only the potential gains from a theoretical lower basket value versus the cost of fuel for the additional distance to drive a foreign supermarket. The average fuel consumption is calculated based upon STATEC statistics (6,5 l/100 km) and the price difference originate from the Nielsen study 4 regions 2015.

SENSE AND NON SENSE OF CROSS BORDER PURCHASES



SENSE AND NON SENSE OF CROSS BORDER PURCHASES



Low prices but less choice in Germany

GRAND DUCHY LUXEMBURG BENEFITS FROM CROSS BORDER PURCHASES

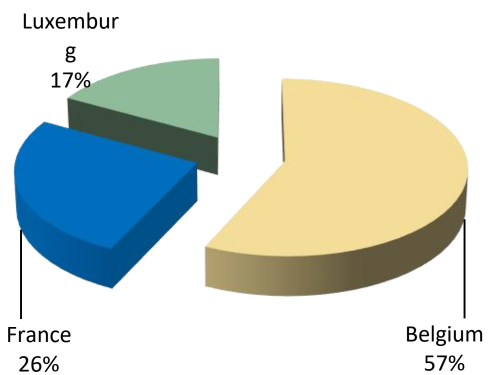
PARKING LOT OBSERVATION

Count of license plate by country origin of cars on carpark of outlet

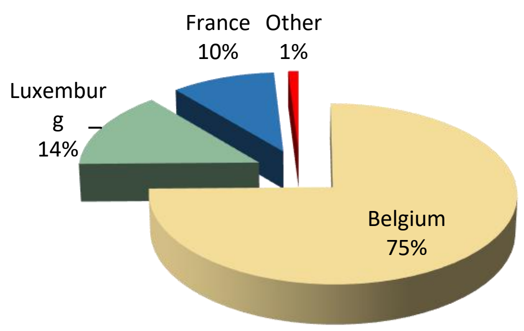
Note: it should be taken into account that Luxemburg plates can also include company cars of employees working at GDL

Observing license plates in store parking lots : Belgium

Cora Messancy
Friday+Saturday PM



Carrefour Hyper Arlon
Wednesday PM

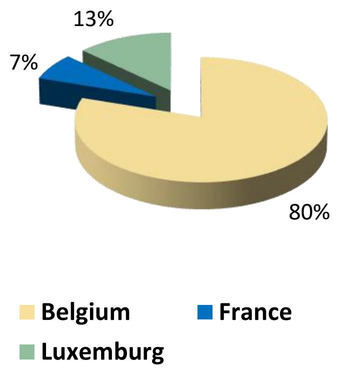


Luxemburger and French shopping in the expensive Belgium supermarkets ?

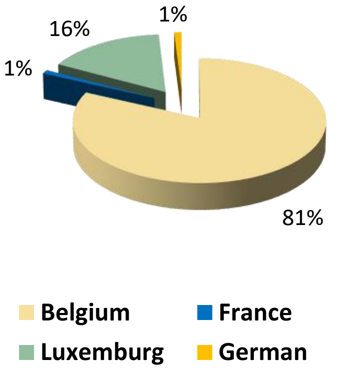
L company car numberplates of Belgian residents employed in Luxemburg.
Proximity is the driver number 1 (Christina Holweg – ECR)

Observing license plates in store parking lots : Belgium

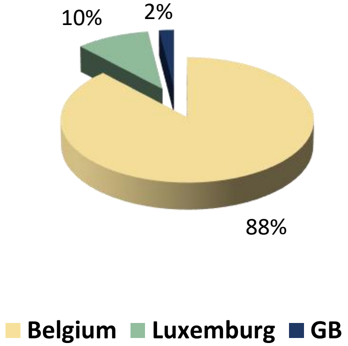
Aldi Arlon
Friday PM



Delhaize Arlon
Wednesday +Friday PM



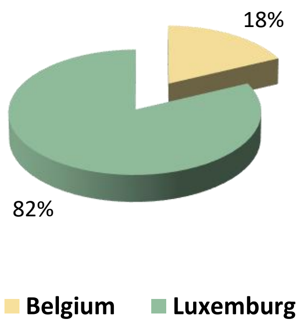
AD Delhaize Bastogne
Wednesday PM



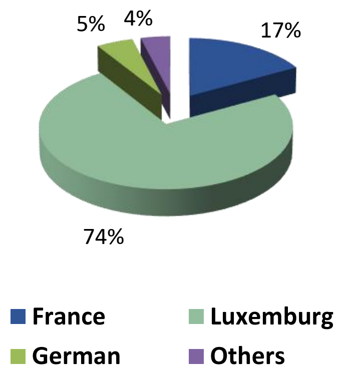
Observing license plates in store parking lots : GDL

TRAFFIC GENERATORS SHOPPERWARE CONVERSION ENGINES

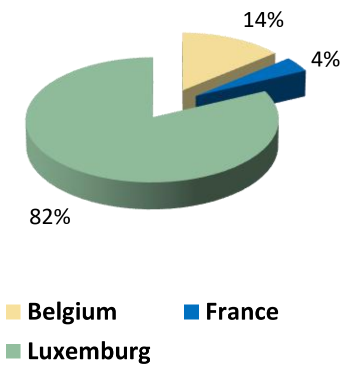
Colruyt Mersch
Friday evening



Auchan Hyper Kirchberg
Saturday PM



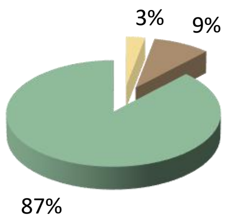
Delhaize Bertrange
Wednesday PM



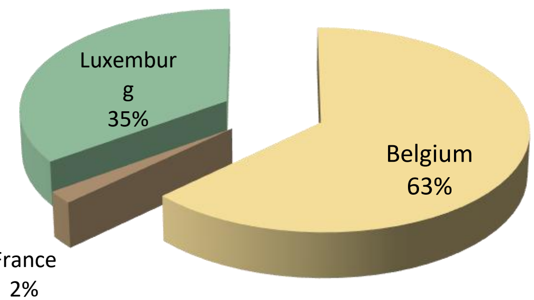
Auchan LU attracts French and German shoppers.
L company car numberplates possibly French residents employed in Luxemburg.

Observing license plates in store parking lots : GDL

Cora Bertrange
Tuesday /Wednesday PM



Pall Center Oberpallen
Saturday PM



Why GDL attracts Belgian households :

-Fun shopping

-Discovery of other or specific GDL products.

-The shopping experience in GDL is very good. Shops are in general better staffed than in Belgium.

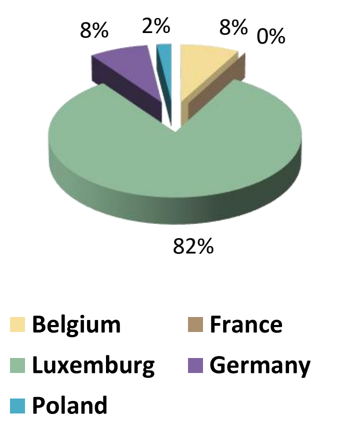
-In most cases clean and well organized shops.

-Many households live in Belgium but work in Luxembourg and they are very much integrated in the GDL way of living.

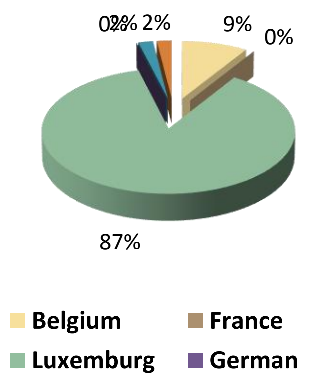
On Saturday afternoon 63% of the shoppers at Pall center are Belgian residents .
L company car numberplates possibly Belgian residents employed in Luxemburg.

Observing license plates in store parking lots : GDL

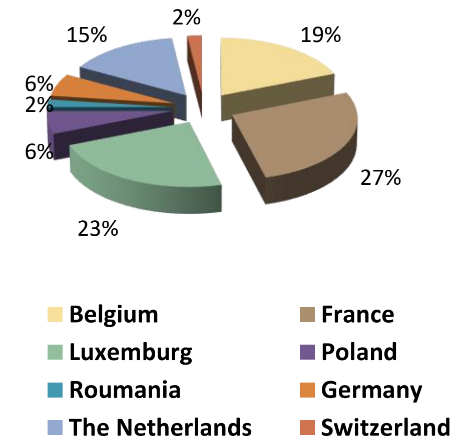
Lidl Mersch Saturday PM



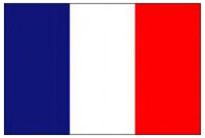
Aldi Mersch Saturday PM



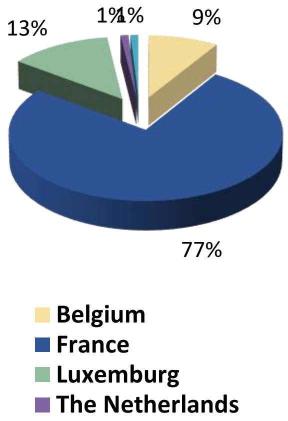
Petro Capellen Saturday PM



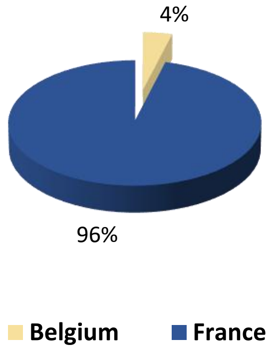
Observing license plates in store parking lots : France



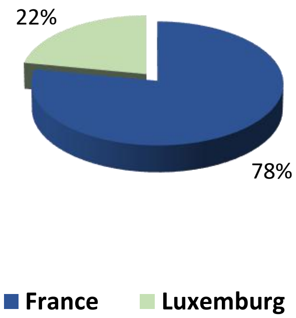
Auchan Hyper
Mont St Martin
Wednesday PM



Lidl
Mont St Martin
Wednesday PM



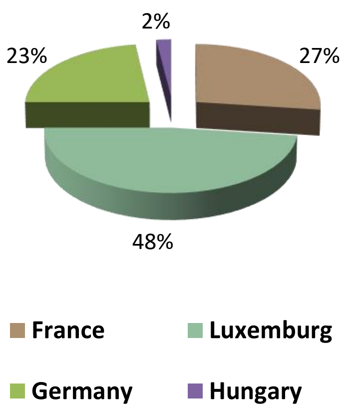
Carrefour Market
Audun Le Tiche
Saturday PM



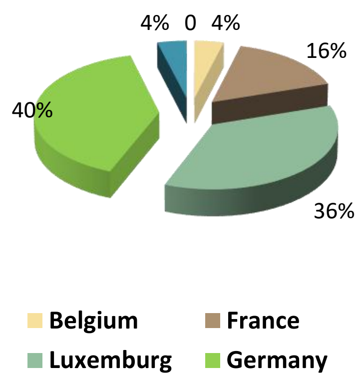
Auchan FR attracts 13% Luxemburg shoppers.
L company car numberplates possibly French residents employed in Luxemburg.

Observing license plates in store parking lots : Germany

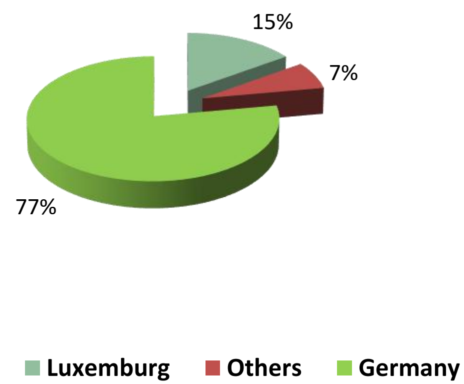
Rewe Perl
Saturday PM



Penny Perl
Saturday PM



Real Trier
Saturday Evening



Perl D/ Schengen LU (Mosel)
Proximity is the number 1 driver.

FIELD AUDIT

ASSORTMENTS SMALLER OR BIGGER IN LUXEMBURG

FIELD AUDIT
NUMBER OF DIFFERENT SKU'S
ALL FORMATS : HYPER + SUPER + DISCOUNT

	GDL	Germany	France	Belgium	Average
Shampoo	125	100	**148**	138	128
Laundry products	106	63	**147**	121	109
Softdrinks	**153**	71	102	167	123
Lager type beers	**62**	36	52	42	48
Yogurt	**153**	137	**79**	119	122
Chocolate/speculoos spread	24	12	17	32	21

The number of sold SKU's in Luxemburg is in 4 out of 6 audited higher than average. The assortment is lower on average versus France because of the presence of huge Hyper Auchan FR in the sample focusing on Laundry and personal care categories, which is typical for French Hypermarkets.

FIELD AUDIT
NUMBER OF DIFFERENT SKU'S
ALL FORMATS : HYPER

TRAFFIC GENERATORS
SHOPPERWARE
CONVERSION ENGINES

Hyper	GDL	Germany	France	Belgium	Average
Shampoo	219	230	**314**	188	238
Laundry products	178	146	**259**	166	187
Softdrinks	185	134	111	**212**	160
Lager type beers	86		88	60	78
Yogurt	231	**266**	145	170	203
Chocolate/speculoos spread	29	16	38	**40**	31

The number of sold SKU's in Hypermarkets in Luxemburg is somewhat smaller than French or Belgian hypermarkets but still higher than average for 3 categories

FIELD AUDIT
NUMBER OF DIFFERENT SKU'S
ALL FORMATS : Super / discount

Super/discount	GDL	Germany	France	Belgium	Average
Shampoo	99	67	92	**113**	93
Laundry products	86	42	**110**	99	84
Softdrinks	**143**	55	99	**145**	110
Lager type beers	55	45	40	33	43
Yogurt	**131**	70	57	94	88
Chocolate/speculoos spread	22	11	10	**28**	18

The number of sold SKU's in Luxemburg is **above average** for every product category

Field audit sample
30 march 2015

1	Belgium	Hyper	Cora	Mesancy	
2	Belgium	Hyper	Carrefour	Hyper	Arlon
3	Belgium	Super	Carrefour	Market	Arlon
4	Belgium	Super	Delhaize	Market	Arlon
5	Belgium	Super	AD Delhai	Market	Bastogne
6	Belgium	Discount	Lidl		Bastogne
1	France	Hyper	Auchan	Mont	St Martin
2	France	Super	Carrefour	Market	Audun
3	France	Super	Simply	Market	Thionville
4	France	Discount	Lidl	Mont	St Martin
5	France	Convenie	Carrefour	City	Longwy
1	GDL	Hyper	Cora	Concorde	Bertrange
2	GDL	Hyper	Auchan	Hyper	Kirchberg
3	GDL	Super	DLL	Bertrange	
4	GDL	Super	Pall Cente	Oberpalle	(vlakbij Be
5	GDL	Super	Cactus	Mersch	
6	GDL	Super	Match	Mersch	
7	GDL	Super	Match	Mertert	(vlakbij Du
8	GDL	Discount	Lidl	Mersch	
9	GDL	Discount	Aldi	Mersch	
10	GDL	Proximity	DLL	Proxy	Grevenma
1	Germany	Hyper	Real	Trier	
2	Germany	Super	Rewe	Perl	(vlakbij GI
3	Germany	Super	Edeka	Trier	
4	Germany	Discount	Penny	Perl	(vlakbij GI
5	Germany	Discount	Lidl	Trier	

1	GDL	Petro		Shell	Berchem
2	GDL	Petro		Shop&Go	Capellen
3	GDL	Petro		bp	Capellen
4	GDL	Petro		Esso	Esch/Alze