Price and Promotion in Western Europe
Encouraging signs of recovery

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Executive summary: the only thing consistent is inconsistency

It is getting increasingly difficult to predict how consumers are going to react to changes in price and promotions. Whilst during recessionary times it is generally easy to forecast how shoppers may respond to price changes or promotional behavior, as most European markets recover, behaviour – from retailers, manufacturers and consumers alike – is getting more unpredictable than ever.

In France, we have seen that shoppers have taken the opportunity of lower prices on national brands to select more premium products, whilst in the United Kingdom (UK) shoppers have taken the opportunity to lower the overall price of their weekly shopping basket.

This phenomenon is detailed in IRI’s report ‘Price and Promotion in Western Europe: Encouraging Signs of Recovery’.

We are seeing some trends change since last year for fast moving consumer goods (FMCG) products, which remain very moderate despite an economic recovery in many countries. In this report, half of the countries measured – the UK, Spain and Greece – are reporting value sales declines across food and drinks categories. We are seeing a similar pattern in non-food, which is the main change versus a year ago – although here growth is seen in France, Spain and Germany, while Italy, Greece and the UK are seeing declines. Trends are pointing towards a return to less-essential purchases that consumers had previously moved away from, as economies continue to improve across Europe.

When the food and non-food sectors are broken down further, there is also great flux in the market, with individual product groups showing varying degrees of growth and decline across Europe. Still, overall value grew for all product groups (+0.6% total Europe), despite being low for many, particularly for the three big food sectors: ambient, chilled and frozen.

While economies and value sales may be recovering, prices are not. This year’s figures show that prices across Europe for non-food products hardly saw any change, up just 0.1% on volume price, while food saw only a 0.3% rise. For the average shopper therefore, there has been very little impact on the overall price of the shopping basket.

The price wars that are taking place around the region (particularly in the UK, France, Greece and Spain) are causing food prices to fall, but this is not necessarily leading to sales improvement. Instead, sales still seem to correlate to those areas in which promotions are happening, showing once again that European shoppers continue to be influenced by promotions.

Across Europe, promotional activity has remained fairly static, and the UK continues to demonstrate the highest level of promotional activity. The UK is providing a valuable case study as to the impact of promotions on sales.
Key findings

- Taken as a whole across countries measured, total food and non-food value sales increased up 0.6%, while sales by volume rose 0.3%. The strongest growth happening in Germany where the value of sales for food and non-food have each grown by 3.4%, or 2.3 billion euros.

- Food sales are up, both in terms of value and volume. However, increases are minimal. Value sales rose 0.5 to €276.3 billion, while volume rose 0.2%. The UK, Spain and Greece witnessed heaviest losses.

- Non-food is back to growth, with value up 0.7% (€64.2 billion) and volume up 0.6%. Growth spanned France, Spain and Germany. Non-food sales fell across Greece and Italy (grocery value fell 2.5% in both countries), as well as the UK.

- Prices across Europe for non-food products hardly saw any change, up just 0.1% on volume price, while food saw only a 0.3% rise.

- Individual product groups are displaying various degrees of growth and decline across Europe. Overall, value grew for all product groups, despite it being low for many.

- Volume sales declined or were relatively static in Italy, Greece and the UK (where every category has been impacted).

- Overall across Europe, drinks (both alcoholic and non-alcoholic), frozen food and pet food & pet care, showed volume declines, whereas all others increased.

- Some categories have seen significant price rises. Alcoholic drinks, for example, showed a 2.6% rise in prices. This led to a 1.2% volume sales decline for the year. In Germany, for example, there is more premiumisation, leading to increasing sales for brands and higher priced products but lower sales across private label.

- Promotional activity was fairly static, with the proportion of product sales on promotion only increasing by 0.5 share point during last year, to 28.7%, for food. Non-food promotional activity was static (+0.1 share point) at 28.1% across Europe. This equates to only a 0.4 share point rise year-on-year.
Is promotion starting to reach unsustainable levels?

In 2014, the proportion of volume sales accounted for by trade promotions across Europe rose by 0.2 share point, but volume sales fell 0.7%. For 2015, promotional activity followed a similar pattern, rising slightly faster 0.4 share point. More than one-quarter of sales volume (28.6%) is now sold on promotion. Whereas in 2014, sales volumes fell by 0.7%, this year they increased 0.3%. The fact that promotional volume, for a second year, has outstripped sales volume growth is worrisome and shows that promotional activity may not actually be working. Whether such levels are sustainable or not remains to be seen.

Within the different countries analysed, promotions vary wildly, once again with often lacklustre results despite high levels on promotion. Nowhere is this more evident than in the UK, which leads Europe when it comes to promotional reliance, with more than half of all goods sold on promotion (at 54.6% by volume), a 0.6 share point rise on 2014. In contrast, in Germany the figure is much lower. Only 13.2% volume of goods are sold on promotion. This is also a 0.6 share point rise on last year largely coming from the food sector.

The level of promotional activity has to be examined in the context of sales to understand true impact. Germany, with only 13.2% of the volume of goods on promotion, still enjoyed a 3.4% rise in the total value of sales and a 2.3% rise in volume sales, showing that, in some markets, promotions can be more effective when they are used as they should be – as an incentive to persuade the customer to make an unplanned purchase.

In stark contrast, despite more than half of all goods in the UK being on promotion, both the volume and value of sales fell, down 1.5% and 1.6% respectively.

Between these two extremes are also some high numbers. In Spain and France, around one-fifth of volume sales are on promotion, while in Italy one-third of all volume sales are on promotion.

Volume sales on promotion evolution by country

Volume sales on promotion evolution by country, in Europe, year-on-year, share point change

Sources: IRI InfoScan (hypermarkets and supermarkets) for all countries; for the UK, Boots and Superdrug are included as well; for Germany, drugstores are included as well.
Is promotion starting to reach unsustainable levels?

For some markets, such as Italy, promotions have been necessary in order to boost short-term sales. Still, last year’s report showed that promotions don’t always translate directly into sales and this is a pattern that has continued this year as well. However, during 2015 things in Italy are changing for the better. Across all retail channels monitored by IRI, promotional pressure in Italy is less intensive and it has been decreasing steadily since the beginning of the year.

Where promotional levels are high but not working as they should, manufacturers risk losing margin, especially when the cost of running such promotions is taken into account. If the UK’s particular reliance on promotional activity continues in 2015, as it did in 2014, it will signify worrisome pattern of behaviour has emerged. Manufacturers could find hard to recover, since such high levels of promotional activity will become further ingrained into the psyche of shoppers. Manufacturers will need to work exceedingly hard to re-educate consumers about having a more sustainable balance between promotion and standard prices. Other markets must take note.

Volume sales on promotion by country, food versus non-food

Volume sales on promotion by country for food and non-food in Europe, year-on-year, in %

Total Food | Total Non-Food
---|---
Total Europe | 28.7 | 19.3 | 33.9 | 21.4 | 53.7 | 14.3 | 28.1 | 8.6
France | 28.7 | 19.3 | 33.9 | 21.4 | 53.7 | 14.3 | 28.1 | 8.6
Italy | 20.6 | 21.4 | 19.6 | 14.3 | 8.6
Spain | 32.2 | 21.4 | 19.6 | 14.3 | 8.6
UK | 32.2 | 21.4 | 19.6 | 14.3 | 8.6
Germany | 32.2 | 21.4 | 19.6 | 14.3 | 8.6

Sources: IRI InfoScan (hypermarkets and supermarkets) for all countries; for the UK, Boots and Superdrug are included as well; for Germany, drugstores are included as well.
Price increases: do manufacturers dare raise prices?

The impact of promotional activity failing to make any real mark upon sales volumes begs the question of what manufacturers can do to change consumer behaviour, since they cannot afford to repeat the high ratio of promotions seen in the UK. Manufacturers are playing a losing game, particularly since retailer competition is driving down prices. This poses a very serious threat to manufacturers’ longevity, especially when the cost of such promotional activity is taken into account too.

Of course one tactic is to raise prices, and across Europe the research certainly shows that there has been some price inflation, despite the fact that it is at a relatively low level. Volume prices are up 0.3% for food and 0.1% for non-food. This equates to a 0.3% change in volume prices overall.

Still, the truth is that such increases are small considering that the European market is, largely at least, showing a stronger economic situation, increasing wages and growing output.

Overall prices were fairly flat in Spain and the UK. They were static in France and only exceeded 1% growth in Germany, where prices overall rose 1.1%. This led to an increase in the sales value, up 3.4%.

The reality is that it is likely to be a three-way power struggle between manufacturer, retailer and consumer, each of whom will have their own personal agendas to meet and, therefore a different outlook on whether they can cope with price hikes or not.

Average price increases by country

Price evolution by country in Europe, year-on-year, change in %

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Food</th>
<th>Total Non-Food</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Europe</td>
<td>+0.3%</td>
<td>-0.2%</td>
</tr>
<tr>
<td>France</td>
<td>+0.0%</td>
<td>+0.3%</td>
</tr>
<tr>
<td>Italy</td>
<td>-0.1%</td>
<td>-0.7%</td>
</tr>
<tr>
<td>Spain</td>
<td>+0.1%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>UK</td>
<td>+1.5%</td>
<td>+0.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>+1.3%</td>
<td>+0.1%</td>
</tr>
<tr>
<td>Greece</td>
<td>+0.2%</td>
<td>-0.4%</td>
</tr>
</tbody>
</table>

Sources: IRI InfoScan (hypermarkets and supermarkets) for all countries; for the UK, Boots and Superdrug are included as well; for Germany, drugstores are included as well.
Price increases: do manufacturers dare raise prices?

Across categories there have been varying reactions to rising prices. In Europe, a 2.6% increase in the volume price of alcoholic drinks, for example – the biggest increase across all categories measured in the report – led to a 1.5% rise in the value of sales but a 1.1% fall in volume.

In confectionery meanwhile, a 1.6% rise in the volume price (the second biggest category rise) led to a 1.7% rise in the value of sales, but also a nominal increase in the volume of sales, albeit by only 0.1%.

This trend is evidenced across some of the individual markets. In the UK for example, a 3.2% rise in the volume price for alcohol brought a 0.4% rise in the value of sales, despite a 2.8% fall in volume.

In Germany there have been significant price rises across all but two categories (chilled and fresh food and personal care) being the exceptions, and yet in all but one instance both value and volume of sales have risen.

Whether manufacturers can effectively manage price rises in such a volatile market is somewhat risky. To have a hope of being successful in doing so requires both brand strength and market support. More success is likely in the increasing popularity of round pound/Euro offers, which once again this year are increasingly evident.

The fastest increase in price was alcoholic drinks at 2.6%. It drove 1.5% improvement in value sales but volume sales declined, falling by 1.1%.
Falling promotions, rising sales

As IRI’s research has identified, in most instances, trade promotion is driving sales, but not always growth. Still, this year’s report shows that some categories buck the trend when it comes to promotions turning into sales.

This is the case in a number of categories across Europe - including personal care, household and pet food & pet care. This trio of categories all registered either very small rises or declines in promotional activity, with personal care and household both up 0.1 share point and pet food & pet care registering a 0.1 share point decline in promotional activity. Yet, all managed growth in sales value, which for household at least, outpaced inflation.

This is a phenomenon that is further exaggerated across different countries and within the different categories. In Germany, for example, promotional activity by volume grew only 0.2 share point for household and non-alcoholic drinks, and yet the value of sales grew substantially and above that of price too. In household for example, the value of sales rose by 5.4% despite a 0.7% price rise. For non-alcoholic drinks, the value of sales increase was also high (+4.5%) although prices rose only 3.7%.

In Italy the decline of promotional pressure was stronger for the branded products than private labels. At the same time branded products are growing more than private labels in the larger part of the categories.

Average price rises are being held low and promotion levels have increased, as retailers continue to battle for share with price wars, mainly affecting the big food categories in ambient and chilled/fresh. Although improved GDP trends should enhance consumer confidence it is still quite soon since the European shopper was heavily engaged in cost-saving strategies and so a quick return to increased spending at higher prices, should not be expected.
Non-food outperforms food

In times of recession and economic crisis, it is only natural that sales growth comes in necessities, such as food, rather than less essential products. However, this year’s figures show that the picture is starting to change. Non-food enjoyed a 0.6% growth in Europe in sales volume, three times the growth of food which was 0.2%. Non-food now accounts for €64.2 billion compared to €63.7 billion last year. This compares to food sales up 0.5% to €276.3 billion compared to €274.9 the year before.

Non-food value sales grew an average of 0.7% across Europe and by 3.4% in Germany, the highest growth recorded. By contrast, the value of sales for non-food fell by 2.5% across both Italy and Greece, with personal care particularly badly impacted.

Volume sales for non-food enjoyed both the biggest peaks, 3.3% rise in Germany, as well as the biggest troughs, illustrated by a 3.5% fall in Greece, compared to food which fluctuated from a 2.1% gain in Germany to a 1.5% drop in Greece and the UK.

Breaking this down into categories, frozen food did well in the period and saw the strongest volume growth in both Germany and Greece, although volume fell in the UK. Sales of alcoholic drinks fell for the UK and Greece, while sales of non-alcoholic drinks dropped in Greece, Italy and Spain. The non-alcoholic categories in Italy did not perform well during the last 12 months due to a very bad season in terms of weather. After May, thanks to a very hot summer, the trends definitely changed and were increasingly positive.

Price wars in a number of countries have continued to impact prices, with food prices down in Spain and the UK, while, in Germany, food prices grew by 1.3% for the period.

Volume sales trends by country

Volume sales evolution in Europe per country, year-on-year, change in %

![Volume sales trends by country chart]

Sources: IRI InfoScan (hypermarkets and supermarkets) for all countries; for the UK, Boots and Superdrug are included as well; for Germany, drugstores are included as well.
Non-food outperforms food

Although steep price increases in some categories pushed value growth, volumes declined for categories, including alcoholic drinks and frozen foods, which fell 1.1% and 0.6%, respectively. Marginal growth was seen in ambient food and chilled & fresh food, 0.4% and 0.3%, respectively. Confectionery volume was near static, up only 0.1% on last year.

Across non-food, household sales grew significantly across Europe, up by 0.9% in volume - three times the growth of personal care (0.3%). Pet food & pet care volume sales meanwhile fell, down 0.2%.

Although the personal care category grew strongly in Germany, where it saw 3.3% sales volume growth, it declined in Italy, the UK and Greece – the latter saw an 8.0% slide in the volume of sales after volume prices rose 4.0% for the period. Italy recovered somewhat from January 2015, especially when also taking into account specialised channels, such as drugstores.

Both food and non-food were heavily promoted in the UK and Italy, with the UK having 53.7% volume sales on promotion for food in 2015 compared to 58.4% for non-food. At the other end of the scale Germany saw 14.3% of volume on promotion for food and only 8.6% for non-food.

Volume trends are starting to change: non-food enjoyed a volume growth rate three times faster than food.
Overall, alcoholic drinks topped the chart in Europe for the biggest drop in sales volumes, down 1.1% on last year with value sales of €41.4 billion. This was despite the fact that it was the most heavily promoted category overall. Part of the reason for this could be that the category saw a 2.6% increase in volume price and only a 0.5 share point rise in volume on promotion.

The category is likely to have been impacted by taxes. In Italy, this was certainly the case, with tax rises from January 2015 affecting all prices, but particularly beer.

Tax increase in many European countries helped to fuel an increase in sales value of 1.5%, less than the rate of price increase (+2.6%). The category remains however, the most promoted category across Europe, with more than one-third (36.2%) of volume sales bought on promotion.

In the UK, promotional activity on alcoholic drinks is at an even higher level. Although not the highest promoted product category in the UK, more than half (55.8%) of the category was bought on offer in 2015, the same level of promotional activity as the year before. However, despite the static level of promotions, prices actually rose in the UK too, up by 3.2% on last year. Although this led to a 0.4% increase in the value of sales, it did not translate into sales volume growth, which fell 2.8%.
The sharpest fall for the category occurred in Greece, which saw a massive 7.3% fall in alcoholic drinks sales with sales by total value down 6.4%. This is attributable to a combination of taxes and customer austerity measures. The fall in sales volume was second only to personal care, which saw an 8.0% drop in Greece. The decline was also despite manufacturers and retailers working hard on prompting customers to buy after promotional activity rose by 5.3 share points change to 25.8% in 2015.

By contrast, both France and Germany saw healthy growth in sales of alcoholic drinks. In France, volume grew 1.5 and value grew 2.0% on a promotional ratio that, at 22.2%, was more than half that of the UK and had only risen 0.3 share point sales on last year.

In Germany, the volume of sales rose by 1.3% with a 3.0% rise in the value after a 1.8% rise in prices. Promotional activity for Germany was up 1.5 share point to 22.8% for 2015.

It certainly seems that there is a mixed thirst for alcoholic drinks across Europe, as some save their money and buy through grocery chains to save going out, while other consumers forgo the category altogether.

Alcoholic drinks is the most promoted category in Europe, with 36.2% of volume sales on promotion.
Category focus: household - strongest performing category during 2015

Household goods was the strongest performing category in Europe during 2015, boasting the largest uplift in sales of all categories (+0.9% by volume and 1.3% by value, to account for €25.3 billion). This was above the 0.6% average for non-food as a whole. Household grew despite a 0.4% price rise and an almost static level of promotional activity (up only 0.1 share point to 28.8% of goods being on deal).

Trends are similar in France, where volume sales rose 1.4% while promotional activity rose only 0.2 share point, to 22.3%.

Household growth was sharpest in Germany, with sales of up 4.8% in volume and 5.4% in terms of value, hitting €5.7 billion. This was despite a promotional activity level of 10.4%, up only 0.2 share point on last year and in a market that for this category saw volume prices rise by only 0.7%.

The trends are likely evidence of the fact that as the non-food market recovers, customers are investing more in their homes as they move beyond necessity budgeting to buying a wider range of goods than they have previously.

This could be encouraging news for manufacturers who want to consider raising prices, since it seems that with the general economic recovery in Europe people are widening their non-food purchasing now that they have more cash.

Despite these positive trends, note should also be taken of Greece. The still-struggling country saw a 1.0% fall in sales volume for household product category despite a 4.1 share points rise in promotional activity, the third highest rise in all the categories measured in the country.

Volume sales growth by country for non-food

Volume sales evolution by non-food sectors, in Europe, year-on-year, change in %

Sources: IRI InfoScan (hypermarkets and supermarkets) for all countries; for the UK, Boots and Superdrug are included as well; for Germany, drugstores are included as well.
This report contains data gathered from six countries in Europe: France, Italy, Spain, the UK, Germany and Greece. The data has been sourced from IRI Infoscan® retail databases; 52 weeks ending May 2015 versus the same period prior year.

Macro-categories analysed: chilled & fresh food, ambient food, frozen food, non-alcoholic drinks (including tea and coffee), household, personal care, confectionery, pet food & pet care and alcoholic drinks (note: does not include wine and spirits for the UK; Greece includes beer and ouzo only).

The market channels used for each country in this report are as follows:

<table>
<thead>
<tr>
<th>Country</th>
<th>Channels used</th>
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<tbody>
<tr>
<td>UK</td>
<td>Hypermarkets, supermarkets (including Boots and Superdrug)</td>
</tr>
<tr>
<td>Spain</td>
<td>Hypermarkets and supermarkets</td>
</tr>
<tr>
<td>Greece</td>
<td>Hypermarkets and supermarkets</td>
</tr>
<tr>
<td>Germany</td>
<td>Hypermarkets, supermarkets and drugstores</td>
</tr>
<tr>
<td>Italy</td>
<td>Hypermarkets and supermarkets</td>
</tr>
<tr>
<td>France</td>
<td>Hypermarkets and supermarkets</td>
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</tbody>
</table>
Resources

If you have enjoyed this report, you may be interested in the following IRI solutions, which provide customisable insights:

IRI Global Executive Market Reviews (IRI GEMs) give fast moving consumer goods manufacturers and retailers access to POS-based information outside of their home country. This solution is ideal for exploring new market opportunities, to understand the players and products in countries where you don’t yet have a presence. This is also valuable for understanding new or adjacent categories in foreign markets. IRI GEMs are based on the retail census data IRI collects from grocery, drug and other available FMCG retailers across countries. Information is available from the United States, the UK, France, Germany, Spain, Italy, the Netherlands, Greece, Puerto Rico, Australia, New Zealand and Japan.

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Country by Country Review
As with last year, the UK market remains incredibly promotionally driven with strategies that seem to be doing little to actually drive up sales which, for 2015, stood at €82.4 billion. More than half (54.6%) of the volume of product sales in the UK were bought on offer in 2015, compared to 28.6% for Europe overall, making it the country with the highest level of promotions across Europe.

All of the categories measured had promotional activity rates of 44% or more, with three categories at 64% and over. At 68.2%, non-alcoholic drinks was the most heavily promoted category studied, followed by personal care and confectionery, the latter of which saw the biggest point rise in promotional activity, up 2.3 share points on last year.

UK consumers have been inadvertently trained to look for deals in-store and to concentrate their purchasing into promotional periods. This behaviour is having no signs of slowing down. In essence, this means that the impact of promotions is also declining with each new promotion becoming less effective at achieving the desired uplift than the last. Similar trends are also observed in the United States (this situation is explored in great detail in IRI’s new report ‘Drive Margin Growth of 1 to 3 Percent with Collaborative Pricing Strategies’).

For manufacturers this is a worrisome trend that can have its own devastating effects on sales volumes, since some products within promoted categories may see barely any sales when off promotion compared to huge uplifts when on. Manufacturers must do more to try to get to a more consistent price structure.

Just over half of all categories increased their volume on promotion in the last year. For instance, 83% of volume sold for cola was on promotion, while deodorant and body sprays had an 81% volume of sales on promotion and hair conditioner 80%. Just under half increased deal depth, slightly down across the latest year as a whole.

### Volume sales on promotion evolution by category in the UK

**Volume sales on promotion evolution by category, in the UK, year-on-year, share point change**

![Graph showing volume sales on promotion evolution by category in the UK](chart)

Source: IRI InfoScan (hypermarkets and supermarkets, Boots and Superdrug)
The United Kingdom

Promotional activities are not delivering when it comes to driving up sales, and the UK reports drops in sales volume in all categories, with a 1.5% fall in volume sales overall and significant losses for all categories. The exception was non-alcoholic drinks, which was boosted by increased sales of bottled water. Non-alcoholic drinks volume was static.

The UK also saw declines in the value of sales in all but two categories. Alcoholic drinks and household goods, increased value sales 0.4%. Value sales declined by 1.6% overall during the year, with food down 1.9% and non-food 0.4%. The most dramatic fall was in chilled and fresh food, where sales values fell by 3.8%. The market declines are despite price rises in six of the nine categories measured. The most dramatic price rise occurred in alcoholic drinks, where prices rose 3.2%. Only ambient food, chilled and fresh food and non-alcoholic drinks saw prices fall.

Round Pound price points are increasing in popularity in the UK and, as such, manufacturers are often remaking pack sizes in order to hit the required price points. Customer favourability seems to be moving away from ‘buy one get one free’ (BOGOF) offers to a multi-buy strategy that focuses on ‘2 for £x’, so reducing the price for multiple purchases rather than getting one item free.

More recently, money-off single pack purchases have also been increasing in popularity.

A positive note could be taken from the fact that promotional activity grew by only 0.6 share point overall and by only 0.8 share point for food. Promotional activity actually fell, for chilled and fresh food, household and pet food & pet care categories.

Prices have also dropped in some categories as the major supermarkets reduce prices to compete with the ever-strengthening discount sector in the UK.

For manufacturers, this means working harder than ever, since they need to divert investment from trade promotions budgets into new product development if they are to grow share. However, with the current state of play such a move looks near impossible without sales likely being heavily affected.

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**Average price increases by category in the UK**

Price evolution by category, in the UK, year-on-year, change in %, in average volume price

![Price evolution chart](chart.png)
France

France has seen a much more measured rate of activity than in some other markets.

Still, price competition is strong with price wars of the past two years intensifying this year, leading to a major deflation on national brands, while private brands remain steady.

Both sales volume and value have risen, up 0.7% and 0.6% respectively, while prices have remained static for the year. Promotional activity overall has remained stable compared to last year, with the percentage of sales on promotion up only 0.3 share point for 2015.

Three of the product sectors, ambient food, confectionery and pet food & pet care, reduced their promotional activity. This coincided with volume price reductions across these three sectors and resulted in sales that either stayed the same or increased.

The most heavily promoted categories in France were household (at 22.3%) and alcoholic drinks (at 22.2%). Pet food & pet care was the least promoted category, with only 11.5% volume on promotion. Conversely it was the strongest performer for the country, with volume sales up 2.5% and value sales up 1.2% following a 1.3% fall in volume price.

Alcoholic drinks category was the next strongest performing category, with sales volume up 1.5% and sales value up 2.0% despite a 0.5% price rise. This was followed by household, which saw a 1.4% increase in volume sales and 1.8% in value sales.

Volume sales on promotion evolution by category in France

Volume sales on promotion evolution by category, in France, year-on-year, share point change

Source: IRI InfoScan (hypermarkets and supermarkets)
France

Overall volume sales rose 0.6% in France during the last year, with all sectors enjoying growth (except for frozen food), despite an increase in promotion levels.

Promotional tactics are becoming ingrained with BOGOF packs becoming the most significant promotional event for France. During the first quarter of 2015, a major growth in immediate discounts, rather than potential discounts, was also evident, suggesting that shoppers are increasingly expecting high and instant discounts.

The last round of price negotiations between retailers and manufacturers ended in March this year, but uncertainty remains around the pricing strategy of various distributors in the country and it is anticipated that the price war will continue despite many industry organisations and even the brands themselves berating the impact on their businesses. Organisations, such as the Association Nationale des Industries Alimentaires (ANIA) and the Institut de Liaison et d’Etudes des Industries de Consommation (ILEC), have already voiced their concern about how the price war is impacting investment and employment capabilities in the longer term.

Average price increases by category in France

Price evolution by category in France, year-on-year, change in %, in average volume price

![Price increase graph]

- Food average +0.2%
- Non-food average -0.6%

Source: IRI InfoScan (hypermarkets and supermarkets)
Spain is yet another market involved in a price war situation that has pushed prices down overall (by 0.2%). Volume of sales are static (up only 0.1%) and value sales are flat at €40 billion for the country during this period.

While total FMCG trends are stable overall, at the time the data was collated, non-food sales are up. Value rose 1.5% driven by growth in all three product groups in this sector. The biggest rise came from personal care, which rose 2.4% by value. More recently, the trend has changed. Prices are flat and value and volume are up more than 2%.

Non-food also grew in terms of volume (+1.8%) driven by strong household performance (+2.6%).

Promotional activity is particularly strong in confectionery and pet food & pet care categories (+3.1 share point each). One-third of confectionery volume is sold on promotion, versus 15.2% of pet food & pet care. Again, increased promotional activity does not necessary drive growth. Pet food & pet care inflation of 2.7% led to a 0.7% drop in volume sales.

Although prices fell by 0.2% over the period, they have previously risen more than salaries, while unemployment has also limited the purchasing power of families in Spain.

Wider visibility of pricing and pricing fluctuations in the market is leading to retailers being more reactive than ever when it comes to price changes which, although good for the consumer, is exacerbating the pressure on prices for manufacturers and has brought even more categories into the price war.
Spain

The aggressive promotional retailer stance, coupled with shoppers who are able to find any products on promotion at any time, is making life tough for manufacturers who are already under pressure to keep up their promotional activity, even though it may not actually be translating into sales.

There are also a number of new promotional tactics that are changing how consumers shop in Spain. Couponing has grown significantly in volume, allowing promotions targeted to specific shoppers and with the first couponing magazine to hit newspaper stands soon. This is likely to increase further.

Loyalty card usage is also increasing as is retailers’ use of the data they provide, enabling increased understanding of behaviour around promotional-driven activity and an enhanced retailer ability to track shoppers.

This year has seen manufacturers fight to regain margin control. Still, manufacturers, including Heineken, Coca-Cola and P&G, have reportedly been able to defend their recommended prices.

Going forward, a growing trend of retailer-manufacturer collaboration will reduce the current conflict between the two as they increasingly share promotional information and insights. However, in the short term, aggressive price and promotional activity is here to stay in Spain, although some brands, noted above, are fighting back.

Average price increases by category in Spain

Price evolution by category in Spain, year-on-year, change in %, in average volume price

![Average price increases by category in Spain graph]

Food average -0.1%
Non-food average -0.3%

Source: IRI InfoScan (hypermarkets and supermarkets)
A collapse in raw material prices in Italy in 2014 led to a 12-month deflationary period during 2015, which only ended in May. Since then, prices and basket inflation have risen as the market recovers, with the biggest price rises seen in pet food & pet care, which saw volume prices rise 2.8%, and alcoholic drinks, where prices rose 1.7%.

Italy is now recovering from a tough economic situation, although the unemployment rate is still high. This situation has had a significant impact on the FMCG market, with decreases in both value and volume sales during the past two years. During the period of time data was collated, overall the market has seen an almost static level of sales, with volume down 0.5% and value down 0.2%.

In Italy the level of promotional activity has increased during the last four years, although it never reached the heights seen in the UK. Since January 2015, the level of promotional activity has been decreasing month to month. As discussed earlier in this report during the UK trends, such promotional activity is not necessarily working to sustain the volume of sales. Shoppers have grown promotion-savvy and will often avoid buying the item they need until it, or a comparable brand, is on offer again. Manufacturers need to step outside of the promotional cycle in order to create true and sustainable growth.
In Italy, promotional activity is most intense in the frozen food category, rising 0.3 share point to 38.2% of goods sold. Seven of the nine product groups structured for this report had promotional activity of more than 30%, but like the promotional activity in the UK, such measures are not translating through to sales, with volumes down 0.5% overall. Non-food categories are seeing particularly sharp declines, 1.8%, leading to a 2.5% drop in value sales.

The heaviest decline in value sales occurred in household and personal care categories, both of which saw declines of more than 3%. These drops were partly due to a fall in prices. Yet, this deflation failed to boost the sales volume. For the period, household goods fell 1.8% while personal care decreased by 2.0%.

The market is attempting change. COOP Italia, the most important retailer in the country, recently adopted a strategy similar to an everyday low pricing (EDLP) that covers a number of branded products and which, as a new strategy, could prompt big change, focusing both manufacturers and retailers on low base pricing instead of promotional activity.

Coupons and promotional flyers are also being heavily used in the market to try and prompt sales. Whether such measures are successful in rebalancing the promotional level of the country will be evident in the coming months.
Germany remains, yet again, an enigma amongst its European peers. Sales values have grown by 3.4% during the year with both food and non-food growing at the same pace.

A 5.4% growth in household sales value has helped to fuel non-food’s growth. The category also saw the highest rise in sales volume, up 4.8% for the year, with volume sales up 2.3% for the country as a whole.

Pet food & pet care was the only category in Germany to post a decline (down 1.4%) in grocery and drugstores channel. The drop is due to a movement towards pet shops. At the same time there is a trend towards small dogs, meaning that sales shift towards smaller volume products which generally have a higher price per volume.

In the non-alcoholic drinks category, hot beverages saw significant price increases, strongly driven by price increases of roast and ground coffee, which were up by 15.2%. This was mainly due to private labels increasing their shelf prices.

Confectionery is also growing by volume and value. Chocolate is particularly successful in increasing its value sales by establishing higher prices backed by smaller packages and premium products. The price increases have been forced by the higher cost of raw material and ingredients.

The country has the lowest rate of promotions in Europe, with only 13.2% of the volume of goods sold on promotion. The market in Germany, however, is very
Germany

different from the other countries in this study, since the strength of the discount market encourages a very different consumer behaviour pattern. The market is developing a two-pronged approach. While the discount sector dominates, shoppers are also increasingly upgrading their purchases, either to higher priced private labels or manufacturers’ brands. While Aldi and Lidl had been suffering from losing market shares in the past years they now have adjusted their strategy to address the change of consumer behaviour and attract new consumers. Aldi, for example, is increasing its level of branded goods, to 50 branded products by the end of 2015. Lidl, meanwhile, has been running extensive quality image campaign across all media channels that has helped to reestablish its position in the market place.

Due to the high market share of discount retailers, resulting in comparably low level of shelf prices, Germany is a market where shoppers promotions are a comparably rare treat rather than an expected sales tactic. Promotion levels have risen only 0.6 share point for the year, and prices have risen by 1.1% on an overall basis. Despite this, both sales volume and value have risen, with volume sales up 2.3% and value up 3.4%. However, there are three categories, non-alcoholic drinks, alcoholic drinks and confectionery, where the percentage of volume on promotion is measured at more than 20%. These three categories are the focus of promotions because they have proven to drive frequency and impulse shopping for retailers and show high relevancy for setting the retailer’s price image.

Germany has seen strong growth across a number of product categories, but the strongest growth is in household, where volume sales rose 4.8% and value sales climbed 5.4%.

Average price increases by category in Germany

Price evolution by category in Germany, year-on-year, change in %, in average volume price

![Graph showing average price increases by category in Germany](image)

Source: IRI InfoScan (hypermarkets and supermarkets and drugstores)
This growth has largely been driven by a big change in sizing for detergents, which has seen bigger pack sizes, especially at discounters and large hypermarkets, as well as smaller pack sizes that address smaller household sizes.

Manufacturers are also trying to ensure consistent pricing strategies across the different retailers in the country but they are having little luck, with only a few of the major brands successfully doing so.

As the economy is further growing, a few manufacturers have taken the brave decision to try to raise prices, having previously been restricted by years of price wars. However, the response to this has been mixed, with one sparkling wine manufacturer, for example, losing substantial volume share after its peers failed to follow suit with price rises.

One method manufacturers are using to absorb their rising costs of raw materials is through premiumisation, offering premium lines or products at higher price levels to compensate. This has been the case particularly in product groups like laundry and household.

The price rises in the German market could come to an end as Aldi shifts strategy. While it is yet to prove successful, the strategy has provoked new price competition over the recent months. In household and personal care, where drugstores are dominating the German market, leading retailer dm, is counteracting with its permanently low shelf price policy. In food categories, Lidl and Kaufland as well as Edeka and Rewe, are reacting with lower shelf prices, more aggressive promotion prices and - at least temporarily - delisting and broader placement of private labels.

Given these circumstances and taking the bargaining mentality of German shoppers into account, promotions remain important even though still on lower density than in other European markets.
Greece

Not surprisingly, given its economic situation, Greece is the country showing marked trends around sales, price and promotion, as manufacturers and retailers seek to boost sales in an economy that has faltered.

Retailers are heavily involved in price wars as they try to win business with low prices. The key focus of the retailer’s advertising campaigns, promoting their themselves, is to take over from the manufacturers, with weekly promotions advertised frequently via TV and radio spots in the country.

Retailers are focusing their efforts on tailor-made discounts on product categories or specific brands and are varying these by week in an on-going effort to win sales. Manufacturers are essentially forced to follow the retailers’ lead, else risk losing sales.

It is no surprise why their efforts are so concentrated. Total value sales fell 1.7%, to €3.83 billion. Non-food sales saw significant decline, down 2.5%, compared to a fall of 1.5% in food. Only confectionery (with increased prices) and frozen food (with increased volume growth) registered any value growth in the country. The growth in frozen food in particular is a result of the price war between retailers. This activity has seen deep discounts (up to 40% and 50%), which have prompted shoppers to buy.

Sales volume also fell, down by 1.9%. Volume was negative in all but two categories, with the biggest fall reported in personal care, down 8.0%, presumably as the Greeks worried more about putting food on the table than personal grooming. Negative growth was also affected by the high inflation of this category with a 4.0% lift in prices - the highest.

Average price increases by category in Greece

Price evolution by category in Greece, year-on-year, change in %, in average volume price

<table>
<thead>
<tr>
<th>Category</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambient Food</td>
<td>0.7</td>
</tr>
<tr>
<td>Chilled Food</td>
<td>-1.8</td>
</tr>
<tr>
<td>Dairy</td>
<td>0.9</td>
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<tr>
<td>Drinks</td>
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<tr>
<td>Frozen Food</td>
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<tr>
<td>Confectionery</td>
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<tr>
<td>Personal Care</td>
<td>4.0</td>
</tr>
<tr>
<td>Household</td>
<td>-0.8</td>
</tr>
<tr>
<td>Pet Food &amp; Care</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Food average 0.0%
Non-food average +1.0%

Source: IRI InfoScan (hypermarkets and supermarkets)
Greece

This is a market where with certain products, such as bath and shower, consumers are extremely promotionally driven to the degree that they will switch between a handful of brands to purchase the one that is on promotion at any given time.

Sales of alcoholic drinks also fell dramatically, down 7.3% in volume and 6.4% in value. This was in spite of heavy promotional activity, up 5.3 share points and the second biggest increase in promotional activity in the country.

The third strongest decline in sales volume was in non-alcoholic drinks, which saw a fall of 5.9% by volume and 3.9% by value. The category absorbed a 2.0% rise in prices, but only a 0.2 share point increase in promotional activity.

FMCG sales in Greece are definitely reflective of the country’s economy. The only two categories to report positive sales uplifts were frozen food, which saw an 8.2% increase in sales volume, and chilled and fresh food with a 1.1% uplift.

The 8.2% rise is compared to an overall 1.5% fall for the food category overall and is a result of the price and promotion war between the different retailers and discounter referred to earlier. The country has seen a 7.2 percentage point rise in the amount of frozen food on offer, the highest of all the categories in the country. This prompted a 4.2% fall in prices.

Deep discounts of up to 40% to 50% (sometimes added on top of the already existing promo packs of the manufacturers) are doing much to drive sales.

The leading manufacturer of the category is heavily advertising in order to increase penetration and awareness.

Milk has, in the last two years, joined the promotion game in the country, with one of the biggest retailers in the country selling branded milk at private labels equivalent prices for a couple of days every week in order to drive footfall in stores.