



# The rise of value-conscious consumerism

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**Retailers globally are leaning into offerings that capture value-conscious consumers, amplifying the pressure on the ‘squeezed middle’. This pattern of retail reflects a continued global shift in consumer habits in developed markets and increasingly among emerging markets.**

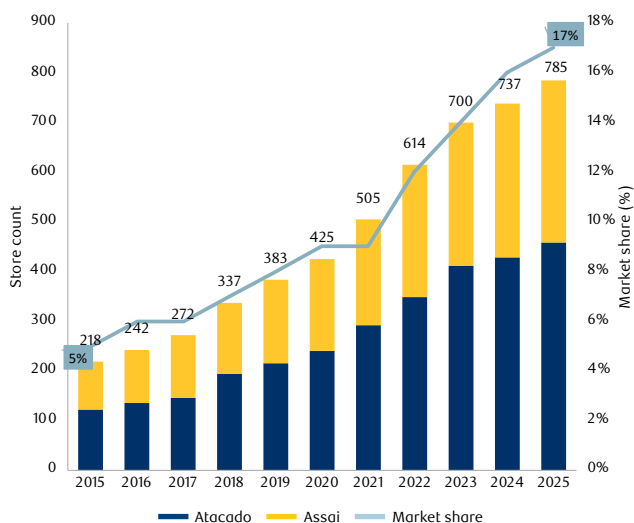
Looking across the retail sector, value and quality are top of mind for consumers. This has led to the ‘squeezed middle’ phenomenon, where the middle of the retail sector has been steadily losing market share to both ends of the retail spectrum, and where conventional vendors, supermarkets and department stores struggle to provide a balance of quality and price to satisfy the mass market consumer.

We believe value retail presents an ongoing global secular trend, and here we predominantly focus on food and grocery value retail, which is primely positioned to benefit from this secular wave.

- Consumer demand for affordability without significant sacrifice in quality is key. In our view, consumers will continue to prioritise value purchases for the foreseeable future and steer consumption habits to value-focused retailers across both discretionary and non-discretionary categories.
- Discounters and value retailers typically operate with a 10-20% pricing gap versus traditional channels, hypermarkets, and supermarkets<sup>1</sup>. Globally we continue to see these types of business models rack up more share gains, most notably in recent years. In Europe, discounter growth has regularly outpaced overall market growth due to organic demand and store rollouts, while in the US, discount retail formats are ubiquitous to the nation, owing to a consumer base that is diverse,
- Aldi is the low price leader in essentially all the markets it operates in globally, garnering outsized influence on overall pricing within the grocery industry. In the US market, Aldi grocery baskets are priced at a significant 25-40% below conventional grocers<sup>2</sup>. We believe this is further testament to the attractiveness of value retail to consumers, regardless of geographic location.
- As a result, discounters are gaining momentum across emerging markets (“EM”) as well. For instance, in Brazil, Atacadao and Assai are pivotal in the value retail space, thriving with a cash-and-carry (“C&C”) model that appeals to budget-conscious customers, with multi-year trends of store growth and share gains (Figure 1). Turkey, the rapid expansion of multiple local discounter chains is another prominent example of value retail’s expansion seen globally (Figure 2).

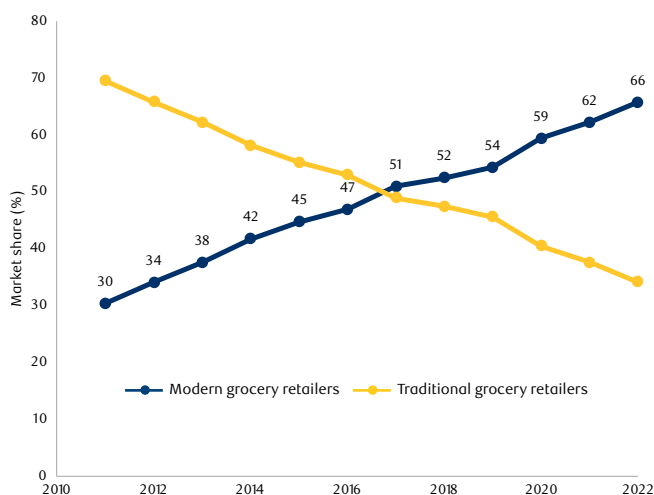
<sup>1,2</sup> Morgan Stanley Research, 2023.

**Figure 1: Brazil's top retail discount operators have seen a multi-year trend of store growth and share gains**



Source: Morgan Stanley Research, 2023

**Figure 2: Turkey's modern grocery segment, including discounters, continues to take more traditional retail share**



Source: USDA, Euromonitor, 2023.

### The 6 key growth drivers

The **shrinking global middle-income class** is a key driver for value retail. Since the 2008 financial crisis, most countries have experienced a decline in middle-class wealth share, highlighting a broad trend of rising wealth inequality. The pandemic and elevated inflation further exacerbated middle and lower-income groups, increasing their preference for value purchases.

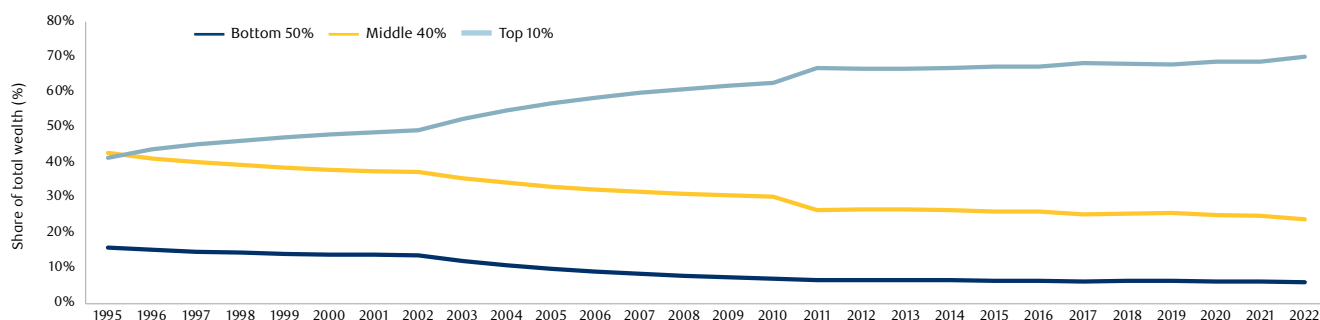
China is an example of this phenomenon. For most of their lives, China's new generation of middle-class citizens enjoyed a booming economy. In recent years, the country has experienced significant shifts in its economic landscape. Despite growth in disposable income for some segments of the population, a notable proportion has faced stagnation or decline in their economic status spearheaded by the local property rout, stock market slump, and the wider economic downturn. The share of personal wealth held by middle class citizens continues to fall (Figure 3), leading to slower consumption patterns, higher saving habits, and actively seeking value purchases.

In addition, the **growing spending power and consumption of younger demographic cohorts** are expected to spearhead spending patterns for the foreseeable future. More than half of the global population were born in the last four decades. They seek value-driven offerings and are flexible in brand preferences. Discount shopping stigma is also fading, and consumers are increasingly comfortable with discount and private label ("PL") products to manage budgets or align purchases to personal beliefs.

**“The pandemic and elevated inflation further exacerbated middle and lower-income groups, increasing their preference for value purchases.”**

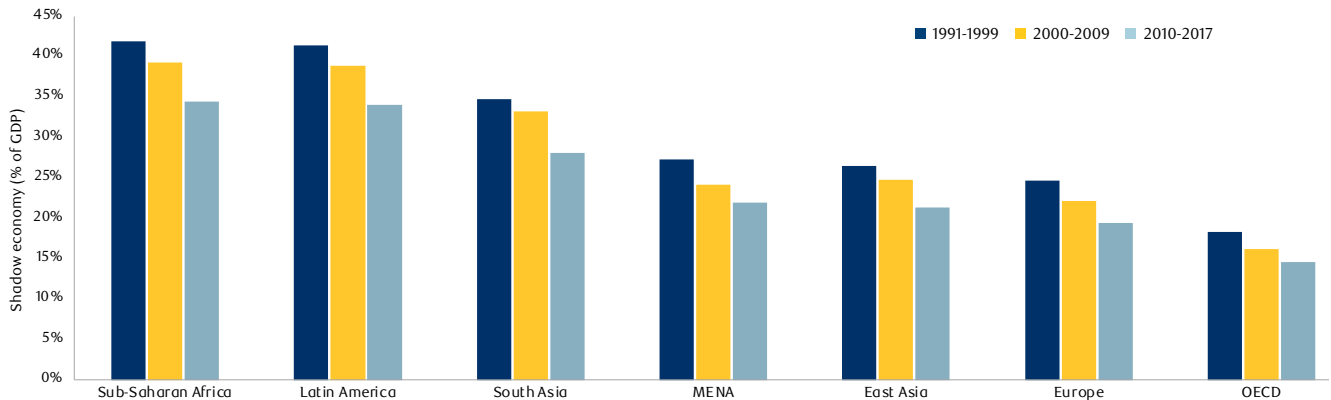
There are also multiple macroeconomic trends, with **economic uncertainties, higher inflation and policy rates**, compelling consumers across the globe to seek out value options. The elevated cost-of-living environment has become a prolonged challenge rather than a short-term hurdle, driving demand for value purchases.

**Figure 3: Net personal wealth of China's middle 40% continues to fall**



Note: Bottom 50 is the population that earns the lowest 50% of income; middle 40 is the population earning the middle 40% of income. Top 10 are the highest 10% of earners. Source: World Inequality Database, 2022.

**Figure 4: EM regions have the largest formalisation opportunities**



Note: Average size (%) of value of the informal sector compared to regional GDP.  
Source: CESifo, 'Shedding Light on the shadow economy', 2019.

We also note that discounter growth continues to outpace other retail categories, showing **remarkable structural growth irrespective of economic conditions**. Discounters thrive during both economic downturns and prosperity. The consumer preference for value allows discounters to outperform other retail sectors, in some cases tripling grocery sector growth during contractions, alongside solid returns in periods of upturn. We find this to be clear evidence of an ongoing secular trend towards value-oriented consumption.

The existence of **informal markets within EMs** also presents a significant growth opportunity for Value retail (Figure 4). The informal retail market lacks the scale, variety, and professionalism of a structured retail environment. We believe the EM value theme presents a more pronounced growth opportunity versus developed markets ("DM"), with many key EM still at the early stages of their formalisation journey and dominated by informal open markets and 'mom-and-pop' type stores. The lower likelihood of established middle-market competition combined with lower GDP per capita (versus DM) will allow formal value retailers to thrive and penetrate more rapidly within EM.

Meanwhile, **the rise of private labels**, which offer comparable quality products at lower prices, are increasingly boosting the rise and appeal of value retailers globally. Increasing PL penetration is a key pillar for value retail growth, with consumers increasingly willing to incorporate PL products into regular shopping habits – a behavioural shift towards value. Amongst modern retail formats, discounters and value retailers are the channel of choice for PL brands, commanding over 50% of PL market share<sup>3</sup>. While Eastern Europe, Asia, and Latin America still show a preference for traditional brands, gradual PL momentum is taking hold. We believe there is ample opportunity within EMs to replicate the PL success seen in Western Europe and North America to win over value-conscious customers.



### Succeeding in value retail

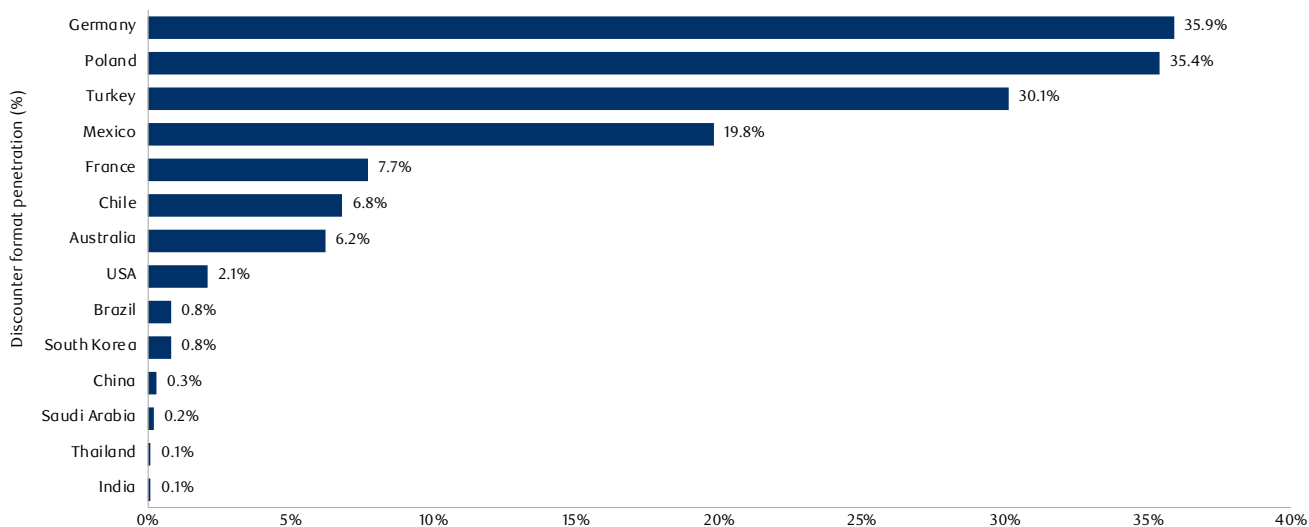
Value retailers have a winning combination; a transferable customer value proposition and an easy-to-implement business model. As a result, they are establishing a growing presence in the global retail market by providing quality products at prices that undercut conventional market rates.

Successful value retailers achieve the delicate balance of price and quality by leveraging business models that emphasise efficiency, strategic suppliers, and procurement operations, and through a focused product assortment. These key features, amongst others, enable retailers to offer attractively priced products, while sustaining profitability and expanding market presence.

They share distinct commonalities and features, including purchasing power benefits (i.e. scale or supplier relationships), efficient expense structures (i.e. labour optimisation or low-cost real estate), and continual re-investment towards lower product prices.

<sup>3</sup> Kantar, 2023.

**Figure 5: Long penetration runway for EM**



Source: Morgan Stanley Research, 2023.

### Market segments

Discount food retail is a USD500 billion plus opportunity globally<sup>4</sup> and with a long penetration runway across EM (Figure 5). Food and grocery operators around the world continue to invest money towards the value format and grow their discount store footprints across markets.

**“Brazilian consumers are actively moving towards discounter formats at the expense of hypermarkets and regional supermarkets.”**

### Case studies

#### Brazil

C&C/warehouse clubs are the predominant discount food retail format in Brazil, with a multi-year trend of outpacing growth in the overall food retail market. The format caters to both B2C and B2B clients, with a warehouse-like store model, bulk sales, and low prices – which are circa 15% below traditional food retail stores in Brazil.

Brazilian consumers are actively moving towards discounter formats at the expense of hypermarkets and regional supermarkets. For instance, C&C/warehouse club operators Atacadao and Assai have meaningfully outpaced market growth rates in recent years, spanning economic cycles. This value retail trend is set to continue, with the reduced relevance of one-stop shops for food and general merchandise. Warehouse club market share is set to expand from 18% to 26% by 2027<sup>5</sup>, while the hypermarket and traditional channels continue to lose share. Warehouse club sales are expected to reach BRL173 billion by 2027, growing at CAGR of +10% between 2022-27<sup>6</sup>.

#### Turkey

The Turkish market has historically been characterised by a volatile macro picture and inflation, which provides a strong growth impetus for discounters, given continued pressure on disposable income. Today, discounters in Turkey account for around 30% of the market<sup>7</sup>, growing on the back of accelerated expansion plans by key players: BIM, A101, and Sok.

All three hard discounters boast a strong footprint across Turkey, with over 30,000 stores between them. BIM is the current market leader on price and revenue, differentiating in the market through its everyday low-price strategy and a strong line of PL products (circa 65% of sales as of 2022)<sup>8</sup>. Inflation in Turkey remains a staggering 75% y-o-y in May 2024<sup>9</sup>, supporting further market share gains for discounters. Continued inflation will be a key driver, pushing consumers towards value retailers as they offer PL stock keeping units priced circa 15-30% below supermarket brands. In addition, we note that traditional food markets including ‘Bakkal’ stores still command over 30% of the Turkish market, representing a formalisation opportunity for discounters, such as BIM, to capture<sup>10</sup>.

<sup>4</sup> Morgan Stanley Research, 2023.

<sup>5,6</sup> Euromonitor, Morgan Stanley Research, 2023.

<sup>7,8</sup> HSBC Global Research, 2023.

<sup>9</sup> OECD, 2024.

<sup>10</sup> Morgan Stanley Research, 2023.

## Case studies

### Poland

Poland has one of the highest discounter penetration rates globally and is the largest market for food and beverages in Central Eastern Europe. The decline of hypermarkets was exacerbated recently with the pandemic, while discounters and convenience stores have gained the most in terms of offline grocery sales. The preference to shop locally and move away from bulk purchases in hypermarkets has benefited both convenience stores and discounters<sup>11</sup>. As result, discounter penetration rates have grown steadily from 18% in 2012 to circa 35% in 2022. Traditional food retailers captured a mere 10% of the market in 2022. Biedronka (Jeronimo Martins) is the biggest discount grocery retailer in the country and has doubled its market share from 2012 to circa 24% as of 2022<sup>12</sup>. As the price leader, Biedronka is likely to continue to gain market share. Dino Polska is another notable discounter, capturing around 6% of the market<sup>13</sup>. Dino's stores are strategically located in smaller towns and rural areas, avoiding major rivals.

**“The preference to shop locally and move away from bulk purchases in hypermarkets has benefited both convenience stores and discounters.”**

### Mexico

We see Mexico as an attractive retail market in Latin America, with strong growth potential for value-centric retail formats. In particular, we note the high level of informality as a key growth opportunity, where discounters can grow faster, offer better value-for-quality products, and provide a more consistent store experience for consumers.

In the Mexican retail market, the growth of value formats is set to continue, with further share gains at the expense of middle retail and the high presence of an informal market. Discounters account for 20% share in 2022, and are expected to expand to 22% by 2027<sup>14</sup>. We also note that over 57% of Mexico's retail market is covered by informal traditional retailers (i.e. mom-and-pop stores, public and open air markets) which distribute local products<sup>15</sup>. We believe discount stores are competing more directly against the informal retail market in Mexico.

Walmart Mexico, the largest grocery retailer in the country, has seen its discounter format “Bodega Aurrera” become the fastest-growing format, with its share of Walmex revenue reaching 46% in 2022<sup>16</sup>. Discounters such as Bodega Aurrera are becoming an increasingly viable alternative to the informal Mexican market as well, offering low prices to consumers, particularly via PL products. Mexico has also seen growth of C&C/warehouse clubs through its differentiated product assortment over traditional food retail channels.

## The e-commerce challenge

The global e-commerce market is rapidly expanding, yet many value retailers are unable to capture this opportunity as lower margins and logistical complexities for online operations are even more pronounced in value formats – impacting profitability and negating their core price advantage. Despite these challenges, discounters are relatively insulated from the e-commerce challenge, as their core customers tend to be highly value-sensitive and prefer in-store shopping to avoid online costs.

## Summary

Based on our country level analysis, most countries look attractive, with India, Turkey, Brazil, and Mexico the standout value retail prospects, while the likes of Saudi Arabia lag behind in relative terms on minimal scoring differences. **India** leads the way with its rapidly growing retail market, a substantial formalisation opportunity within grocery retail, and population tailwinds.



<sup>11</sup> MUSDA, Poland: Retail foods, July 2022.

<sup>12,13</sup> Morgan Stanley Research, 2023.

<sup>14,15</sup> USDA, Mexico: Retail Foods, 2023.

<sup>16</sup> Morgan Stanley Research, 2023.

**Turkey** follows closely behind offering bright prospects for value retail on the back of historically volatile macro conditions and high inflation. A host of LatAm countries, including **Brazil**, **Mexico** and **Chile**, are well placed for growth, with various value formats gaining share from conventional and traditional retailers across the region. Meanwhile, **South Africa's** informal retail presence and consumer acceptance of PL products are key strengths for its value retail prospects. **China** also ranks highly on the back of strong demographic tailwinds, while **Poland** still shows room for growth despite operating in a relatively mature value market.

Diving deeper, on the macro front, elevated inflation metrics and lower GDP per capita are common themes driving value retail growth across EM. Meanwhile, India and China rank highest in demographic growth factors through strong urbanisation growth rates and population tailwinds. Increasing urbanisation provides better infrastructure and access to consumers, making it easier to establish and grow retail operations.

Both countries also boast large youth population cohorts, who are increasingly value conscious. LatAm countries perform broadly well on demographic factors, including high urbanization metrics, but scores are dragged down by lower population density outside of metro locations, making new entrant economics a little challenging.

In terms of market potential, a considerable proportion of EM retail markets operate informally, notably in India, Brazil, Mexico and Turkey, indicating a strong opportunity for rapid market share gain for value retailers. In addition, Turkey, South Africa, and LatAm countries rank highest amongst EMs in terms of acceptance and existence of PL products, a key aspect of value retail. From an operating environment standpoint, while there is plenty of room for improvement, we find that most EMs provide reasonable levels of stability, regulatory assistance, and business infrastructure for value retailers to succeed.

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