NEW REPORT

LIDL & ALDI 2017

ResearchFARM

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ALDI & LIDL IN AMERICA

2017 Defense and offense

JUNE 2017

INTRODUCTION: ALDI & LIDL IN AMERICA 2017 - OFFENSE AND DEFENSE

The grocery industry is focusing on the online revolution and Amazon-Fresh. But, actually, a different format is outperforming the growth in the online channel and the total sector by quite a margin – the hard discounters.

Following that logic, Schwarz’ CEO has mothballed the Lidl click & collect prototype in Berlin. He pointed to the UK, the most advanced online grocery market. The fastest growth, again more than 20% this month, is achieved by Aldi and Lidl.

So, while focussing on the long term, the digital revolution and transformation is of course the right thing to do, grocers shouldn’t take their eyes off the ball. In the immediate here and now – the discounters are the real threat to top line sales and margins.

And now Schwarz Group’s Lidl, the EU’s biggest retailer by sales, is coming to America…

THIS REPORT…

- analyses the complex interplay between relentlessly optimised and standardised business principles, extremely lean ranges, leading to fewer production runs, leaner supply chains, less floor space requirements and fewer shop oor staff
- explains the strengths of a unique private label proposition that disables easy price comparison and often sets the bar in terms of quality/price ratios, winning accolades from consumer watchdog organizations
- shows how a honest and simple offer that builds long term loyalty and customer relationships founded on lowest possible price and highest possible quality works without couponing, special offers and loyalty cards
- demonstrates how a product centric discounter can outperform the leading customer centric retailers without much cutting edge technology, by operating according to the principle that less is more, reducing complexity and by awless execution and timely exploitation of trends

FEATURED DATA

- All the financial data and KPIs, sales, stores, space and densities and market shares
- Special focus on Aldi US and Trader Joe's with detailed statistics
- Aldi's and Schwarz Group's global sales, stores, bench-marks, selling space, sales densities
- Aldi SKU level sales data versus Walmart
- US grocery and retail sales data and per capita spend, 5 years series
- Top 10 global retailers sales and analysis
- Includes pictures from store visits to the discounters new concept stores
- Development updates for Lidl's 2017 launch into the USA

Lidl: OSA, Warendruck, operational independence for Lidl and Kaufland – until now?

- **Both businesses, Kaufland and Lidl, are run as separate units but both follow the discount principle – to keep the model as simple as possible and to cut down on complexity.** As a result of this operational independence there are hardly any synergies between Kaufland and Lidl, neither in buying, pricing or in terms of properties and logistics. **However there are now moves to change this operational independence as Kaufland's sales in Germany have come under pressure somewhat.**
- **On shelf availability (OSA) questions are absolutely critical for both Schwarz' fascias Lidl and Kaufland, even trumping considerations about costs and efficiencies in certain cases.** The thinking behind this principle goes, if a product is not available on shelf, a sale cannot be made. **The German term for this philosophy is called Warendruck, or pressure generated by products.** When entering the premises a shopper should almost be pressured by the variety of goods on shelves to make a purchase. Or looked at from a different perspective – if a product is OOS, a sale cannot be made and the shopper might just not return.
- That said, the retailer tries to balance its focus on OSA with a keen eye on logistics costs. Both Lidl and Kaufland are trying to work with suppliers to share loads and cut down on trucks running empty on the return trip – by picking up raw materials, ingredients or outsourcing the space to others.

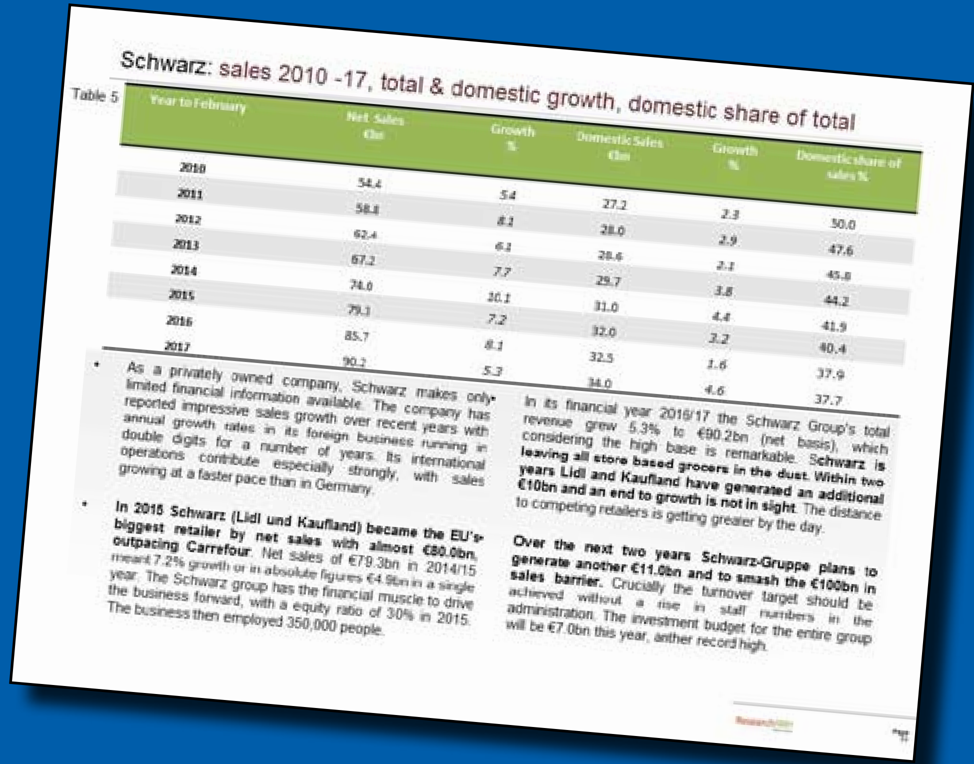
BENEFITS

- ResearchFarm are the EU's premier experts on the discounters:
- Buy into decades of research and analysis into the two businesses
- Find out all there is to know about their operational similarities and differences and their growth potential
- Understand the new competitive threat and how other retailers will be caught in a strategic trap
- Educate yourself about the least understood business model in grocery retailing
- Deep insights into Schwarz Group's strategy for Lidl, an exploration of key components of Lidl's overall strategy
- Appreciate the challenges facing Lidl in making a transition from a limited discounter into a full line service grocer
- Understand what the new concept store strategy is all about from front to back end
- Historic data and precedent from the EU markets show exactly:

    1) what will happen in the US

    2) what mistakes will be made

    3) give a good indication of how far the discounters' triumphant march across the US grocery sector will go



Schwarz: sales 2010 -17, total & domestic growth, domestic share of total

Table 5

Year to February	Net Sales €bn	Growth %	Domestic Sales €bn	Growth %	Domestic share of sales %
2010	54.4	5.4	27.2	2.3	50.0
2011	58.8	8.1	28.0	2.9	47.6
2012	62.4	6.1	28.6	2.1	45.8
2013	67.2	7.7	29.7	3.8	44.2
2014	74.0	10.1	31.0	4.4	41.9
2015	79.3	7.2	32.0	3.2	40.4
2016	85.7	8.1	32.5	1.6	37.9
2017	90.2	5.3	34.0	4.6	37.7

- As a privately owned company, Schwarz makes only limited financial information available. The company has reported impressive sales growth over recent years with annual growth rates in its foreign business running in double digits for a number of years. Its international operations contribute especially strongly, with sales growing at a faster pace than in Germany.
- **In 2015 Schwarz (Lidl und Kaufland) became the EU's biggest retailer by net sales with almost €80.0bn, outpacing Carrefour**. Net sales of €79.3bn in 2014/15 meant 7.2% growth or in absolute figures €4.9bn in a single year. The Schwarz group has the financial muscle to drive the business forward, with a equity ratio of 30% in 2015. The business then employed 350,000 people.

In its financial year 2016/17 the Schwarz Group's total revenue grew 5.3% to €90.2bn (net basis), which considering the high base is remarkable. **Schwarz is leaving all store based grocers in the dust. Within two years Lidl and Kaufland have generated an additional €10bn and an end to growth is not in sight**. The distance to competing retailers is getting greater by the day.

Over the next two years Schwarz-Gruppe plans to generate another €11.0bn and to smash the €100bn in sales barrier. Crucially the turnover target should be achieved without a rise in staff numbers in the administration. The investment budget for the entire group will be €7.0bn this year, anther record high.

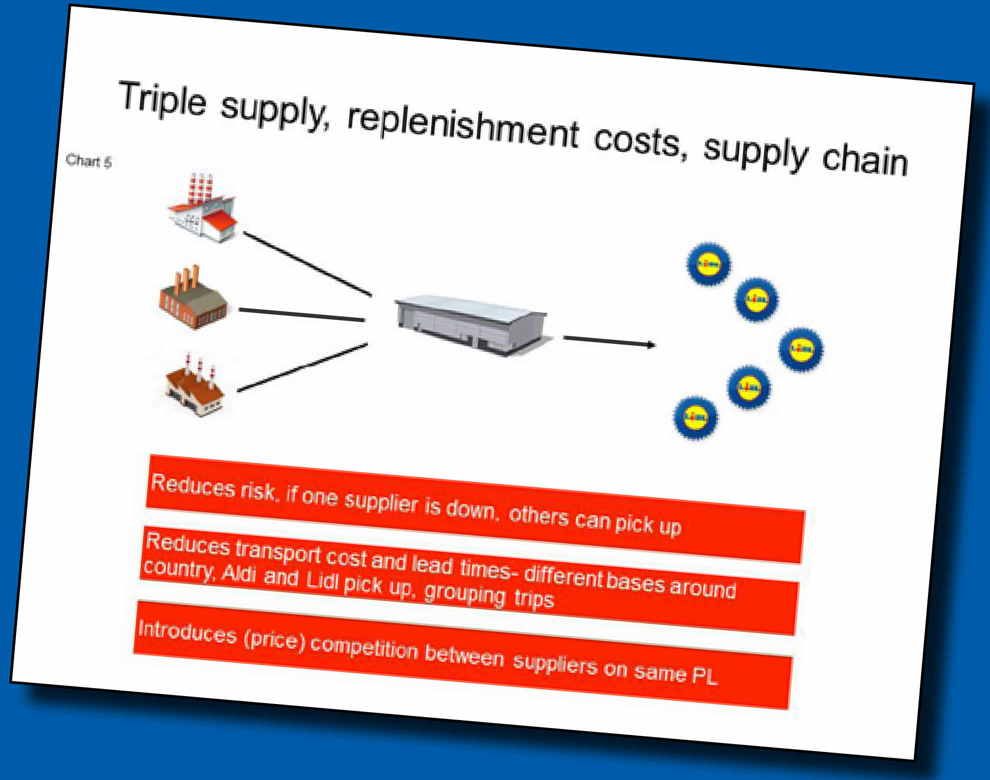
KEY QUESTIONS ANSWERED 1/2

- What will be the ultimate size footprints of Aldi and Lidl in the USA?
- Will Aldi and Lidl settle more in urban, suburban, or rural markets?
- What have been the biggest hurdles and learnings for Aldi?
- Is Aldi a complementary trip, or a competing one, vs. Walmart?
- What will be the biggest differences between Aldi and Lidl in the U.S.?
- Who is most at risk to lose market share to Aldi and to Lidl?
- What could be the ultimate market share for Aldi and Lidl?
- Do Aldi and Lidl have the right management teams?

- What are the most effective defense tactics from competitors of Aldi?
- How close in price does Walmart needs to get vs. Aldi?

- What customer is Lidl targeting?

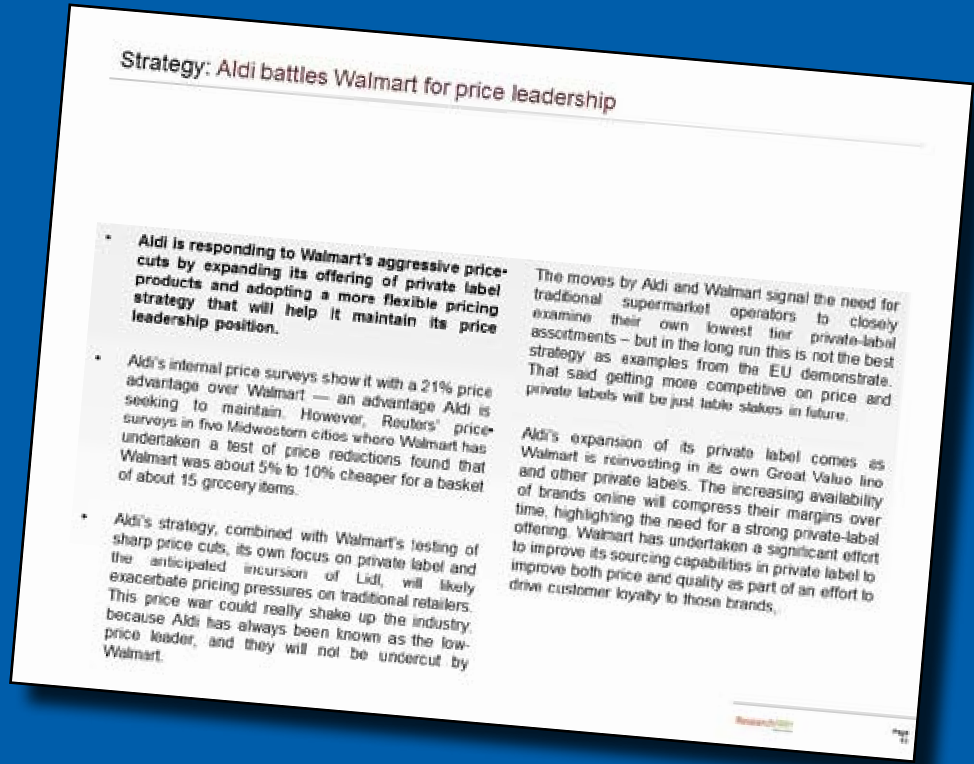
- What are grocers doing to prepare for Lidl's East coast expansion?
- What are Aldi and Lidl doing on the e-commerce side?



KEY QUESTIONS ANSWERED 2/2

- Why did Lidl decide that now was the right time to push into the US?
- How many US stores will Aldi and Lidl operate five years out?
- Will Aldi or Lidl ever become a leading player in any metro market?
- How are Aldi and Lidl funding their growth?

- Will Lidl's entry have a better chance of success than Tesco?
- **What should FMCG companies do? How should they prepare?**
- **What will be the impact on Walmart, Kroger, Ahold Delhaize and others?**



Strategy: Aldi battles Walmart for price leadership

- **Aldi is responding to Walmart's aggressive price-cuts by expanding its offering of private label products and adopting a more flexible pricing strategy that will help it maintain its price leadership position.**
- Aldi's internal price surveys show it with a 21% price advantage over Walmart — an advantage Aldi is seeking to maintain. However, Reuters' price-surveys in five Midwestern cities where Walmart has undertaken a test of price reductions found that Walmart was about 5% to 10% cheaper for a basket of about 15 grocery items.
- Aldi's strategy, combined with Walmart's testing of sharp price cuts, its own focus on private label and the anticipated incursion of Lidl, will likely exacerbate pricing pressures on traditional retailers. This price war could really shake up the industry because Aldi has always been known as the low-price leader, and they will not be undercut by Walmart.

The moves by Aldi and Walmart signal the need for traditional supermarket operators to closely examine their own lowest tier private-label assortments – but in the long run this is not the best strategy as examples from the EU demonstrate. That said getting more competitive on price and private labels will be just table stakes in future.

Aldi's expansion of its private label comes as Walmart is reinvesting in its own Great Value line and other private labels. The increasing availability of brands online will compress their margins over time, highlighting the need for a strong private-label offering. Walmart has undertaken a significant effort to improve its sourcing capabilities in private label to improve both price and quality as part of an effort to drive customer loyalty to those brands.

METHODOLOGY

ResearchFarm are retail research & analysis experts with an in-house analyst team covering all major retail sectors. We pride ourselves on strong relationships with leading retailers and our proprietary in-house data. The company is well known for its culture of high quality analysis and independent opinion backed up by robust data.

We use company accounts, retailer contacts, consumer research, trade associations, government statistics and historical data to arrive at our market sizes.

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