Aldi - Hard discounters 2012: the winning format

A completely underestimated and misunderstood business model
– the Anglo Saxon expansion
– the introduction of FMCG A brands

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September 2012

AN INSIDER VIEW OF ALDI

An unprecedented growth story is unfolding, as austerity bites across the west and food price inflation will filter through into higher retail prices next year. One retailer that stands to benefit hugely from this changed macroeconomic environment is Germany's Aldi. The retailer currently achieves record growth rates in the UK (sustained at well above 20% year on year) and in Australia, where further expansion is already financed out of the cash flow generated in the country.

The huge opportunity going forward for Aldi Sued's stores as well as for Trader Joe's, Aldi Nord's premium organic discounter is the US, where the efficiency of the business model meets a consumer willing to trade down as never before. Meanwhile back in the old world, Aldi Nord is rapidly updating its stores and investing heavily into making the format fit for the next decade.

The big questions rippling through the sector is the introduction of more FMCG A brands across a number of markets, which the two businesses coordinate tightly. We predict that a more attractive SKU proposition increasing frequency (if not necessarily penetration) combined with the store updates from both Nord and Sued will ensure that Aldi will continue to outperform.

This data rich report from the EU's premier experts on hard discounters goes behind the facade and analyses the business model and the poorly understood proposition and success factors of the discounters, with key insights and learnings for other businesses. It argues that Aldi's principles need to be understood in the original context of Germany's retail sector of the 1950s and subsequent development that has created the company's unique culture and business practices, which have proven to be easily replicable and exportable around the globe.

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 floor 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 organisations

- 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 flawless execution and timely exploitation of trends

METHODOLOGY

The report is based on unprecedented access to the company, stores and DC visits and one to one interviews with former and current high-level executives, in some cases the report reflects the view points of the company.

It includes an extra chapter on the introduction of brands into the discounter, analysing what the sales potential is by country, what it means for the rest of the retail sector and the FMCG industry, where the pitfalls are for manufacturers and how long term this latest move will turn out to be

The report also contains a chapter on Europe's macroeconomic outlook and grocery markets and the general context the discounters operate in.

FIND OUT...
ABOUT ALDI'S GROWTH OPPORTUNITIES

- in which markets Aldi sees more potential for the introduction of FMCG A brands and in which private label will remain the main focus

- in which markets Aldi Sued is investing going forward and why filling in opportunities around existing infrastructure have trumped expansion into new territories for now

- find out how successful Aldi is with a move away from EDLP and a new good/better/best approach to its private label proposition and whether this will be the future or not

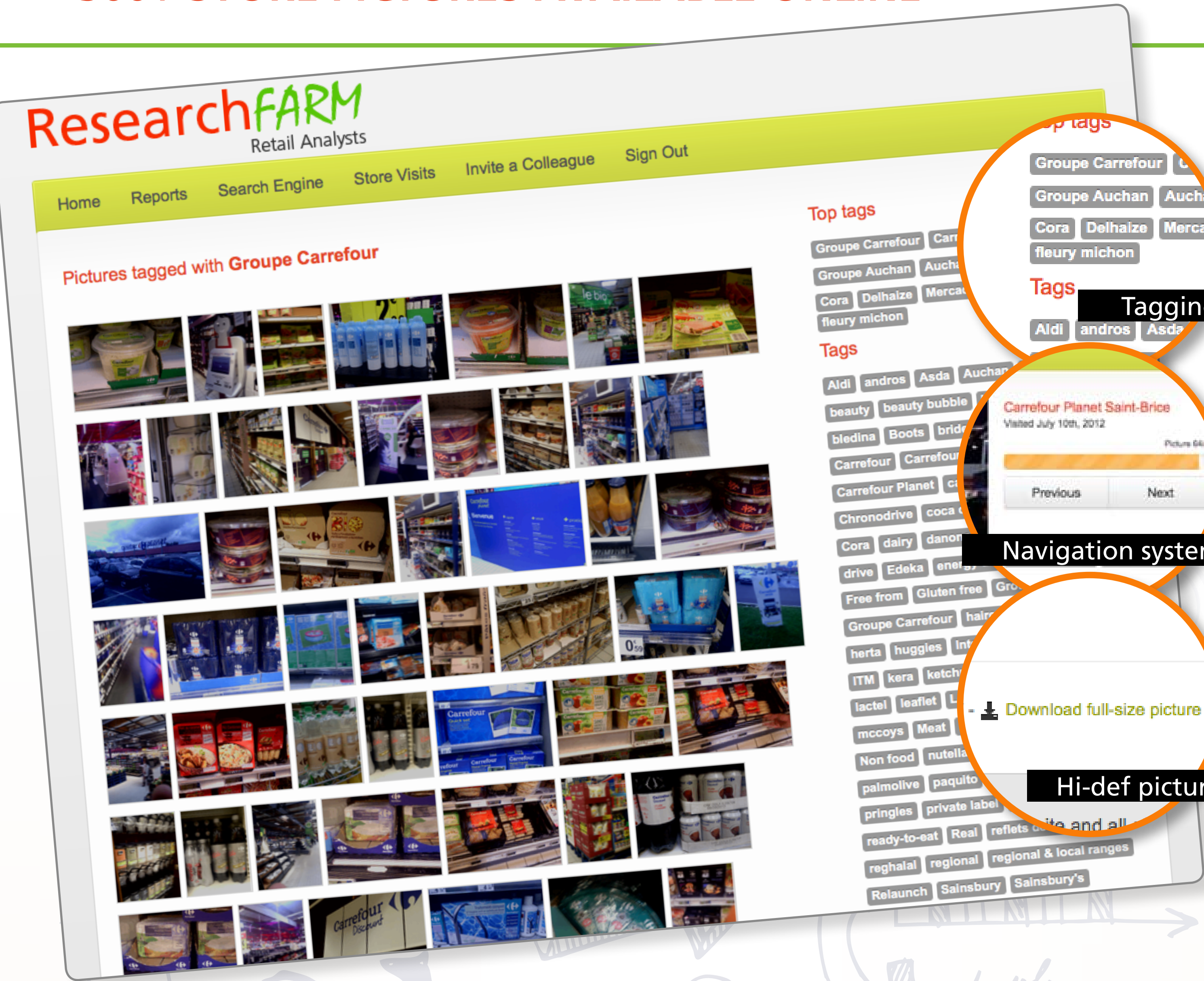
- which markets promise the best returns for both Aldi Sued and Nord and which criteria need to be fulfilled for the discounters to open their distribution centres and stores

- what sales levels Aldi should achieve over the next 5 year period

KEY QUESTIONS ANSWERED

- How much of Aldi’s range is local and its sourcing influenced by the respective store manager? How big is Aldi’s global range?
- Is Aldi due to its limited range assortment and SKU count still the biggest global buyer ahead of Wal-Mart?
- What are the average sales per SKU per country? How high are sales densities in the countries the discounter operates in?
- What is the potential for FMCG A brands at Aldi? What is the brands percentage of the total range at Aldi Sued and at Aldi Nord now? Where can it go? Where will Aldi draw the line?
- What are the learnings from Lidl and the more distant past in regards to the introduction of brands? What are the dangers and risks of a ‘brands in discounters’ strategy?
- Does the 80/20 rule to SKUs sales apply at Aldi, what lines underperform?
- What market share can Aldi reach in the UK? What does the retailer have to do now, to maintain growth rates of more than 20% year on year?
- Why is the discounter changing now? What is the strategy evolving to now?
- What are the main differences between the two businesses (Sued and Nord)?
- How much money is earmarked for expansion into Anglo Saxon markets? What emergency cash facilities is the discounter holding back for eventual price wars and foreign expansion?

500+ STORE PICTURES AVAILABLE ONLINE



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TESTIMONIALS AND CLIENTS

« Our management team was very very satisfied with your reports. Your case studies really helped us. We are revamping our stores and have implemented a new way of thinking within the organisation and your piece of research helped us to understand how others are doing and how to apply it to our business.» (Retailer)

« The case studies helped us to think outside the box and we liked the fact that ResearchFarm is focussed on innovations and the future » (Financial services company)

« The report was very topical and very useful in explaining the technologies, players and issues and privided excellent case studies.» (Retail services provider)

« Very powerful piece of research. We often buy reports from other sources which are full of description and charts and very often with out to date info and things we already know. But yours are very compact and with current examples, re-commendations on what we should do and what we should not do. Examples that we can directly apply to our business.» (Department store)

«Your publications have been extremely useful so far especially because you are giving real life examples. those are really helpful so we can benchmark ourselves against others and see what works and what does not.» (Retailer)

« I found it very insightful. [...] Impressed with the amount of information that has been covered by your report.» (Retail merchandising company)

«I found the document easy to read, well laid out and the content thought-provoking. It reminds me of the major conside-rations that affect our markets, and to address these key issues when approaching the global brands and retailers. This re-port is a very good demonstration of the quality of how ResearchFarm operates and communicates.» (Technology supplier)

«The content is very interesting to us, as we look after many of the largest shopping centres and we also represent many international retailers entering our market. There is plenty of food for thought.» (Property consultants)

«It was helpful. It helped me to persuade my boss to take on a project about e-commerce research. I was really surprised by the importance of legal issues. I never read that elsewhere before.» (Government)

«On DLF's (Danish Association of Fast Moving Consumer Goods Manufacturers) New Years Conference on the 20th of January 2011 we had the great pleasure to hear ResearchFarm speak about future trends in online grocery retailing. The feed back from the conference participants was very positive as they gave ResearchFarm's presentation the highest score of all speakers, finding the analysis about the key success factors of chosen EU and US online retailers both very interesting and inspiring. We can therefore give ResearchFarm our best recommendation.»
Dagligvareleverandørerne – Danish Association of Fast Moving Consumer Goods Manufacturers

Zoom in to read

SAMPLE PAGES

Brands in discounters: 8 reasons to be skeptical, Lidl's cut backs, organisational set up

5 *Lidl's cut backs*

6 *Organisational set up*

5) **Lidl has cut back on brands in store in Germany again - as it impacted the bottom line too much.** The discounter has found a stable equilibrium between branded and own ranges now. In the last years at times there used to be many more brands pushing Lidl's private labels off shelves, however this impacted margins too much, so Lidl cut back on the branded offer again. This means for Lidl there is a clear limit to what can actually be achieved from a cooperation between the FMCG industry and hard discounters. We believe that the same will the case for Aldi.

6) **A discounter operates a different business model from a supermarket**, i.e. the organisational set up, supply chain, warehouses, processes etc are unique and geared toward low costs and efficiencies. This means discounters such as Aldi will not turn into supermarkets, they are set up in such a way that this is impossible to do. Discounters are focussed on driving down price - from buying to returns. They are simply not focused on offering choice, convenience, attractive store environments, brands and so on.

Aldi Nord: Trader Joe – highest sales density in the USA

In the USA, Trader Joe's is owned by Aldi Nord, but is strictly independent operationally from the discounter – indeed Aldi Nord does not have a presence in the market with its discount outlets, as the USA is Aldi Sued territory. Trader Joe's **had the highest sales density in the US grocery sector of all retailers at around US$1,560 per sq ft in 2011.** It should be noted that sales densities (other than Trader Joe's) in the US skew towards the lower end, when compared with Europe, as space is that much cheaper, more widely and freely available in the US – at least outside the major metropolises.

Trader Joe's only sells natural and organic products, with around 80% of the range being private label. The retailer edits the range according to shoppers' tastes, offers a few quirky recipes and formulations and there is a strong focus on costs – just as at Aldi's.

While the store layout is more inviting and friendly than at no frills Aldi, much of the in store presentation is also quite Spartan, with one crucial difference, at Trader Joe's the shelves etc have a natural, organic feel, many products are offered from wooden boxes for example. All natural ingredients and the in store presentation all play up the natural and wholesome image of the retailer, with hand painted boards advertising deals and pricing information. Staff all wear Hawaii themed attire to maintain the original laid back surf style of the first West coast store.

Zoom in to read

SAMPLE PAGES

Aldi: expansion financed out of cash flow, location choice criteria

The discounter follows a clear template in entering a market. First Aldi builds a DC, then Aldi stores appear and locations pop up around the centre, until full capacity for the warehouse operation has been reached – then the original cell splits into two new subunits and a new DC with its own infrastructure and organisational set up is opened.

This methodological approach, which historically was usually not debt financed, but paid out of cash flow, is also being used for the US strategy. The first Aldi Sued store opening in Washington DC in November 2011 was initially supported by operations from Virginia and Maryland, where Aldi has an established infrastructure.

Traditionally Aldi's preferred location strategy was always in secondary or tertiary locations, often out of town or at the outskirts. Shoppers rarely find the discounter in prime locations, that said depending on the country and store network density in question, Aldi operates a lot of smaller neighbourhood outlets as well – particularly in Germany – often the smaller footprints are legacy stores from the past. Recently the discounter has begun to move into shopping centres, where it is usually one of the main footfall drivers.

Crucial for Aldi are car parks and space for deliveries, as stores get daily truck deliveries. Aldi prefers locations near to high footfall hot spots or traffic routes. The stores do not need to be new built, Aldi Nord is perfectly happy to use buildings that are already there.

Aldi Nord: Countries, benchmarks, sales, stores, sales densities

Table 17

Year to December 2011	Total Sales €m	Outlets	Sales per outlet (€m)	Selling space (sq m)	Average space (sq m)	Sales Densities (€/sq m)
Belgium	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Denmark	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
France	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Germany	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Luxembourg	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Netherlands	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Portugal	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Poland	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Spain	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
USA (Trader Joe's)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Total	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table 17 shows Aldi Nord's sales in €m in 2011, its number of outlets, sales per store, selling space, average space per store and sales densities per country where the retailer operates in. Aldi Nord operates some 5,350 stores in 10 markets comprising Belgium, Denmark, France, Germany, Luxembourg, the Netherlands, Portugal, Poland, Spain and the US. We estimate the retailer's sales in 2011 to have reached €26.1bn, with a global average of €4.9m generated by outlet from an average selling space of 883 sq m. The sales density on average stood at €5,527 per sq m. These figures include the stellar performance of Trader Joe's in the US, without which the benchmarks would be considerably lower.

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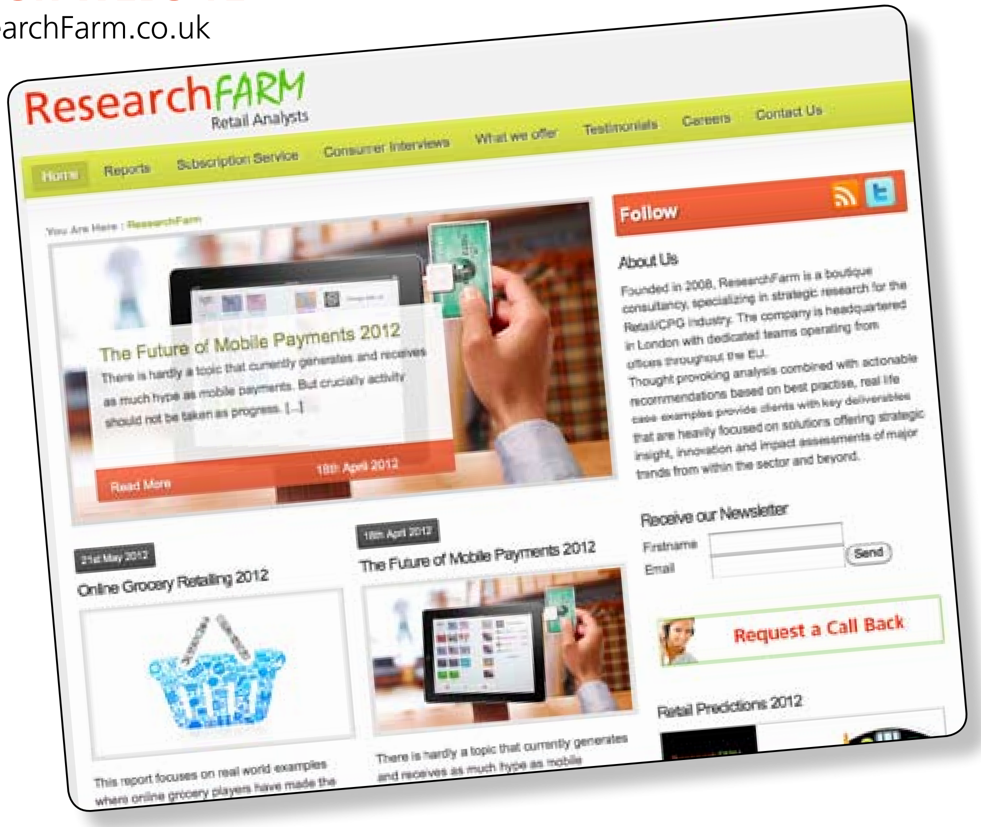

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