



Aldi Nord 2019: a company in crisis, but for how long?
FMCG A Brands, ANIKO and the impact of the domestic slowdown

Introduction

- Currently Aldi and Lidl generate growth, measured in billion dollars, that only online players achieve. Already in the global Top ten, the discounters will climb up higher in the rankings. This has major implications for suppliers, competitors and the wider industry.
- Aldi/Lidl are the only grocery players expanding with bricks and mortar (especially when taking an international perspective). Their new store locations are moving into convenience/inner city spaces, arguably the right future format.
- As competitors build out their online offerings and invest, Aldi and Lidl attack their b&m proposition, from which the competitors fund their digital transformation. This increases their competitors' margin pressure and leads to overall price deflation in the wider market.
- What does this mean? As the industry becomes more concentrated and consolidated (M&As, bankruptcies) for suppliers only a number of key accounts will be left standing (big 4/big 3 etc). The more this happens the more influential the discounters become as an alternative route to market.
- As Aldi/Lidl lose the cheap and cheerful tag, shopper perceptions change. This is pushed further along by the discounters' move to quality, premium private label, fresh/organics.
- Due to their relentless expansion Aldi and Lidl have gained a wide footprint, ideal for global promotions. If a FMCG giant wants to push through a promotion in the entire EU and US/Australia – the only available avenues are Amazon/Alibaba or Aldi/Lidl due to their massive reach, and simplicity inherent in the business model. Both discounters can get product on to shop floors at rapid speed, if required (e.g. Lego promotion before Christmas).
- The discounters benefit from their trading up strategies, lowering FMCG inhibitions to damage their brand perception by a listing, their excellent logistics set-ups and are also attractive to FMCGs due to them both competing against each other.
- This means the discounters will become more attractive to manufacturers as a new channel (quite apart from the fact that they will guarantee massive volume sales, because of their SKU level sales).

Benefits

- **Understand the discounters' structural advantages, arising out of the complex interplay between:**
 - **Cost leadership** (low replenishment costs, combination of limited range and private label (same principle as with price leadership and setting price/quality floor), lower staff/labour costs than other models)
 - **Private label innovation** (Process optimisation and innovation, opportunity: further process optimisation in supply chain, source logistics, vertical integration -> triple supply)
 - **Focus on sustainability**, renewables, cost savings throughout the entire value chain, perfect for discounters with limited assortment, real scale benefits, also for store operations
 - **widen out SKU ranges/brands, change to business model** (data on sales, on SKU level sales Aldi and Lidl are leading all other retailers, scale benefits)
 - **Private ownership** (most expansion financed out of cash flow – some limited store sales and lease back – long term view)
-
- **Aldi opportunity:** Massive potential to simply close the gap to Lidl: SKU range extension, brands, promotions and advertising, combine the two business units (Nord & Sued), scale effects and synergies, more centralised buying. Not just for private label and brands, but also for services/goods not for resale, cleaning, gardening etc
-
- **Appreciate the threats identified**
 - **Change to the business model**, Trading up and the introduction of brands means that the discounters have become price comparable for the first time, shopper perception changes, very difficult to manage.
 - **rising complexity**, IT and Big Data infrastructure -> this means a remodeling of the entire business model, SAP introduction etc,
 - **rising labour costs, rising replenishment costs** due to introduction of FMCG A brands, costs of new store concept (Aldi Nord now with first losses in DE ever),
 - **managing private label supplier relationships**, especially in categories penetrated by FMCG A brands, **Online competition**, Moving away from lockers, Instacart style offerings to cost intensive digitalisation? Can the business model sustain this? Which model should the discounters choose, pick from store for speed/convenience or central picking to keep costs under control?

Benefits

Understand how much a FMCG A brand will generate in any given Aldi country

Learn how to react when your brand gets challenged by Aldi's listings and promotions

Understand what happens when your brand gets promoted and discounted by Aldi and what the effect is on the entire category and market

Learn how many new shoppers and how much frequency an Aldi listing brings

Understand the market share shift impact and how competing retailers will react

Changes to the business model in Germany will be replicated abroad, find out now what's around the corner – understand the German perspective





Features

Forecasts and historic data on all relevant KPIs, based on actual Aldi data, covers all your Aldi data needs

From sales to store metrics, store count, space and sales densities to SKU ranges and brands sales in all Aldi Nord countries, brand multiplier effects, average sales per SKU and brand from 2015-2020 – not available elsewhere

Aldi's strategic business model change explained – from EDLP to high low promotions, how the discounter manages being price comparable and its range architecture pricing, where does the opportunity for collaboration with Aldi Sued lie?

Recommendations for FMCG A brand suppliers, Private label suppliers, competing retailers

Key questions answered

How much money did Coke make from the Aldi Nord listing in 2018 on a SKU level? €50m, 100m? €150m? (And of course Coke has listed more than just 1 SKU across the entire Aldi network)

How much can a national champion brand expect to generate? And what is the forecasted sales volume for 2019 and 2020?

If you list your brand at Aldi what can you expect? What happens if your direct competitor does and you're frozen out? Can your brand be dragged into the price war too?

Who are the winners and the losers from Aldi's trading up and brand listing strategy?

Are the rapid promotions and deep discounts from the retail competition the right strategic response?

How does shopper behaviour change? How do Aldi shoppers react to the brands?

How has the Aldi business model changed – as a result of allowing FMCG A brands in – from the back end to advertising and promotions?

How has the market changed as a direct consequence, what has happened to private label sales volumes and pricing levels?

What does it mean for private label suppliers? For other retailers? For shoppers? For branded suppliers? For private label prices? For price deflation and the sector? For market share shifts?

What will happen with online at Aldi? Are the new store formats driving sales uplifts?

- **How long will it take for Aldi Nord to turn around its domestic business?** What will the consequences be for its foreign markets?
- **How is ANIKO (Aldi's new instore concept) linked with the introduction of FMCG A brands?** How will Aldi Nord cooperate with Aldi Sued to drive the FMCG A brands business, from common buying to advertising, promotions and what happens at the back end?
- **How are Aldi's vertical integration strategies progressing and in which categories are they furthest along?**
- Is Aldi still a EDLP business? How does the retailer manage the transition risks and the challenges to its price perception?

Aldi Nord: Average Store Space Growth by country, 2014-2020f, in %

Table 12

Year to December	2014/5	2015/6	2016/7	2017/8	2018/9	2019/20
Belgium	4.3	2.2	6.0	2.3	0.7	1.7
Denmark	-5.8	-3.3	19.6	8.8	1.8	6.6
France	1.3	1.4	13.9	4.6	1.8	4.7
Germany	0.5	2.1	5.4	-1.0	0.6	-0.2
Luxembourg	4.4	4.2	-0.5	-1.2	4.7	4.1
Netherlands	1.3	0.3	12.2	-0.1	0.0	-0.9
Portugal	8.8	5.4	-5.9	-8.9	-12.6	-3.2
Poland	-16.7	-6.5	10.1	3.3	2.4	10.1
Spain	14.6	3.6	9.4	3.3	1.3	2.1
Trader Joe	-3.3	-7.2	-7.2	-4.3	-3.3	-1.2

Aldi Nord: SKU Count Growth by country, 2015-2020f, in %

Table 14

Year to December	2015/6	2016/7	2017/8	2018/9	2019/20
Belgium	23.4	6.7	3.8	1.6	0.3
Denmark	18.4	10.6	3.5	1.6	-1.0
France	19.8	0.1	1.6	1.0	0.3
Germany	22.5	-2.0	2.4	1.4	0.0



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Executive summary: Aldi Nord 2019 – first ever losses in Germany

Sample Page

- In its domestic market Aldi generated €13.7bn in sales in 2018. However the business is now in crisis mode, as in December 2018 Aldi Nord reported its first ever losses in Germany. While the retailer had planned to grow sales by 3.5% to 4% in Germany in 2018, only a slight increase of just under 1% was actually achieved.
- The Aldi family will invest further despite the double digit €m loss. Aldi's profits after tax in Germany had declined by around half in 2017 to around €200m. In 2018 the decline worsened and the losses account for a double digit €million sum. Profit from abroad will offset this and pull Aldi's profit performance up to breakeven.
- The company does not expect a return to profitability in 2019 either. The current malaise is clearly a result of underinvestment in recent years and a too strong focus on savings and costs that

starved the business of long needed investment.

Aldi has not yet declared how much more money will be needed to establish a turnaround. However it is clear that substantial sums will be required. In 2017 the Aldi family invested €5.2bn into the modernisation of the store network and foreign expansion. The programme is financed out of cash flow, reserve assets and shareholder deposits. Now even more money is required.

Aldi Nord will see radical upheaval in Germany, culminating in new central structures in the business with greater autonomy for the national subsidiaries in areas such as service, marketing, sales, category management and ranging composition autonomy. The central buying teams will also be reorganised and new roles created.

August 2018: Aniko fine-tuning in Germany

- In August 2018 Aldi Nord was fine-tuning its new store concept in Germany, Project Aniko is seeing a rapid roll out. But especially in smaller stores and in promotional spaces Aldi is fine tuning the model, so for example through more chiller cabinets. Aniko was launched in 2017 with high expectations and the discounter has remodelled many stores domestically and abroad. It has now become evident that for smaller spaces the concept hasn't worked as planned. Aldi is now improving on the initial model, the discounter is trialling a different shelving arrangement in the store entrance. In smaller space outlets these have created a bottleneck with shoppers and staff, especially when they are restocking, getting in each other's way and stopping shoppers to access the shelves. Moreover the promotional spaces also see an update, especially for chilled ranges. Aldi has now commissioned special chiller cabinets to showcase the offer better
- In 2016 Aldi Nord grew by 3.6% to €12.7bn, in 2017 growth was 4%, despite store closures, but growth has come off the boil. This doesn't mean that the record investment into Aniko are wrong though, the effects are just unevenly distributed, especially in the larger stores the remodelling showed significant uplifts, and these were the stores the discounter targeted first. In other words if a 700 sq m store is replaced by a 1,400 sq m the sales growth is of course significant. However smaller stores which did not get extra selling space have witnessed far lesser growth

uplifts. Moreover, as the renovation work means store closures of up to 1 week, this has a clear effect on sales performance too. As the discounter is remodelling 40 stores each week, this turns into lost sales of more than €100m. Nonetheless Aldi has no real choice but to invest, the older tired stores are in urgent need of an update.

Sample Page