



**Lidl 2019:** Going omni-channel, disrupting itself before others do it, Vertical Integration, Digitalisation and US expansion



# Introduction

- In 2019 Schwarz (Lidl and Kaufland) broke through the 100bn barrier in sales for the first time. The retailer grew by 7.4% to €104.3bn in 2018/19. Every two to three years the Schwarz Group has changed Lidl's CEO – and since 2014 there have been 4 different bosses. At the same time Lidl added €20bn in sales. This also means that sales growth has not been a factor in the management changes – mostly these were due to internal disputes and Gehrig seems to have a disruptive style that asks for frequent changes. So far this seems to be working.
- And so, despite this remarkable success, Europe's biggest retailer is changing its business model once again. The things that will remain the same are low price focus, and an extreme focus on efficiency in all business processes.
- The things that will or have changed: (I) a focus on organics and environmental credentials, (II) increased vertical integration in all business processes around post consumer (recycling and packaging) as a natural consequence of the success of producing its own private label products – and of course packaging is vital to the overall product proposition, (III) automation and digitalisation, (IV) the online push, arguably still in beta phase without full board commitment, and (V) US expansion, a massive opportunity for the company.

Lidl was first, ahead of Aldi, to innovate and move on from the hard discount business model of the past. The retailer did so by sprucing up its tired store estates and creating a better ambience in store combined with a SKU range extension. This clear trading up strategy, which included permanent listings of FMCG A brands for the first time broke the mould and forced Aldi into copying the strategy.

According to the company, Lidl's current SKU count stands at 3,500, of which 25% are FMCG A brands (875 SKUs), the remainder is private label (75%). However the permanent listing of FMCG A brands had two negative consequences, a clear rise in complexity and cost as well as becoming price comparable, which wasn't an issue when Aldi and Lidl were predominantly private label only. The direct comparability of many products – especially the FMCG A brands listed by both retailers – has opened up a new opportunity. Lidl is feeling emboldened to attack Aldi, the clear price leader in Germany - a position Aldi has held for decades. The discounter has launched a new ad campaigns and a new hallmark called Lidl price. Lidl has gained considerable experience with the promotions on FMCG A brands in recent years and this has led to the discounter undercutting Aldi's promotions as soon as they have been launched. This also shows that the lowest price is one of the best arguments for either Aldi or Lidl, despite all the trading up strategies.

# Introduction

- (1) This trading up and premiumisation has now moved into a new phase with a strong focus on organics. Organics attract a different shopper profile with higher purchasing power and basket spend. Organic also conveys high end quality and is perfect for an upgrade of the private label proposition. It would also justify higher prices and in turn margins – but this depends on Lidl's pricing strategy.
- (2) Vertical integration, first pioneered with production of private label products has been so successful that the retailer now stretches the concept into recycling and waste disposal (Greencycle), and takes charge of all packaging and recycling aspects. Another update of the Vertical Integration strategy concerns the automation in the supply chain. In Denmark and Germany Lidl now operates with robots in its most modern DCs and has taken the technology to the USA as well.
- (3) The innovation at the back end is mirrored in the front end around shopper communication and personalisation. Lidl's digitalisation strategy is employing a Customer Relationship Management 4.0 solution. The strategy is far broader than just the roll out of the Lidl Plus loyalty programme. Lidl doesn't want to lose out on big data approaches and the benefits the online players have in addressing their shoppers individually with one to one marketing initiatives. The discounter is doing so, despite generating 99% of its sales offline in its bricks and mortar stores. In this sense Lidl has become an omni-channel player.

This of course is another radical departure from the old tried and tested discount business model. The entire idea of a Big Data loyalty system would have been anathema to a discounter only a couple of years ago. In a further step, Lidl is launching its proprietary mobile payment system LidlPay in Europe, distinct from Apple Pay or Google. Many retailers worry about losing their shopper data and relationships to the disruptors and having to pay "rent" to the payment ecosystem companies. That said most retailer initiatives have fallen flat so far, be it sector wide cooperation or individual players going it alone. Tourists are also supposed to use the Lidl Plus loyalty solution when they are on holiday abroad, as the solution is conceptualised and rolled out on a Pan EU basis. This means the personalised communication supported by the SAP solution as well as the front end interface and brand is standardised (as is the main Lidl brand of course). Despite this omni-channel approach, online sales (4) are accounting for just 1% of Schwarz Gruppe's sales. Online at the moment seems to be kept at arms length.

The last major change identified in this report remains (5) US expansion. Lidl believes it will take it a decade until the retailer has established itself in the USA. Sales growth is healthy, but the retailer has unsurprisingly not reached profitability yet.



# Benefits

Comprehensive understanding of the discounter model and what lies ahead in the USA and where Schwarz sits in the Global Top 10

Deep insights into Schwarz Group's strategy for Lidl, an exploration of five key components of Lidl's overall strategy

Appreciate the challenges facing Lidl in making a transition from a limited discounter into a fuller serviced grocer and to an omni-channel player.

Understand what the new digitalisation and vertical integration strategy is all about from front to back end





# Features

Forecasts and historic data on all relevant KPIs, based on actual Lidl data, Schwarz's sales 2009-19 including Lidl/Kaufland split and country splits

From sales to store metrics, store count, space and sales densities to SKU ranges in all Lidl countries

Lidl's strategic business model change explained

Where does the opportunity for collaboration with Lidl lie? Recommendations for FMCG A brand suppliers, Private label suppliers, competing retailers

Includes pictures from store visits to Lidl's new concept store in UK, USA and Germany

In depth focus on Lidl's Top 5 countries and development updates for Lidl's 2020 continued push into the USA

# Key questions answered

What factors have been key to Schwarz Group's unrivaled growth rates?

Is there a winning formula to succeed as a discounter? How is Lidl different from Aldi?

How has Lidl managed to find new efficiencies in the supply chains?

Will fresh food see Lidl pivot from a standardisation model towards local production in general?

How can Lidl manage the tension between standardised ranges and cost efficiencies and localising the offer?

Is Lidl becoming a local player?

Is Lidl more known for being a discounter or for quality and freshness?

## Vertical integration

What is the main driver behind Lidl's vertical integration in general?

Which product categories has Lidl vertically integrated?

Why is the retailer so keen on this model?

## Online

What is Lidl's online strategy – exclusively non food?

Could a click and collect service be introduced? Or will it all be about partnerships with Instacart clones?

- **International expansion**
  - What is the state of play of Lidl's US expansion in 2020?
- **FMCG A brands and private label strategy**
  - Why does the retailer rely on triple supply chains so much?
  - How does the discounter manage the FMCG majors?
  - What have been the consequences of the price war between Aldi and Lidl/Kaufland?
- **Digitalisation**
  - Will the loyalty solution be as transformational as Lidl hopes?
  - Will the mobile payment solution be a success?

**Schwarz: sales 2009-19, total & domestic growth, domestic share of total**

Table 1

Year to February	Net Sales €bn	Growth %	Domestic Sales €bn	Growth %	Domestic share of sales %
2009	51.6	6.2	26.6	2.3	51.6
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
2018	96.9	7.4	35.2	3.6	36.3
2019	104.3	7.6	37.0	5.1	35.5





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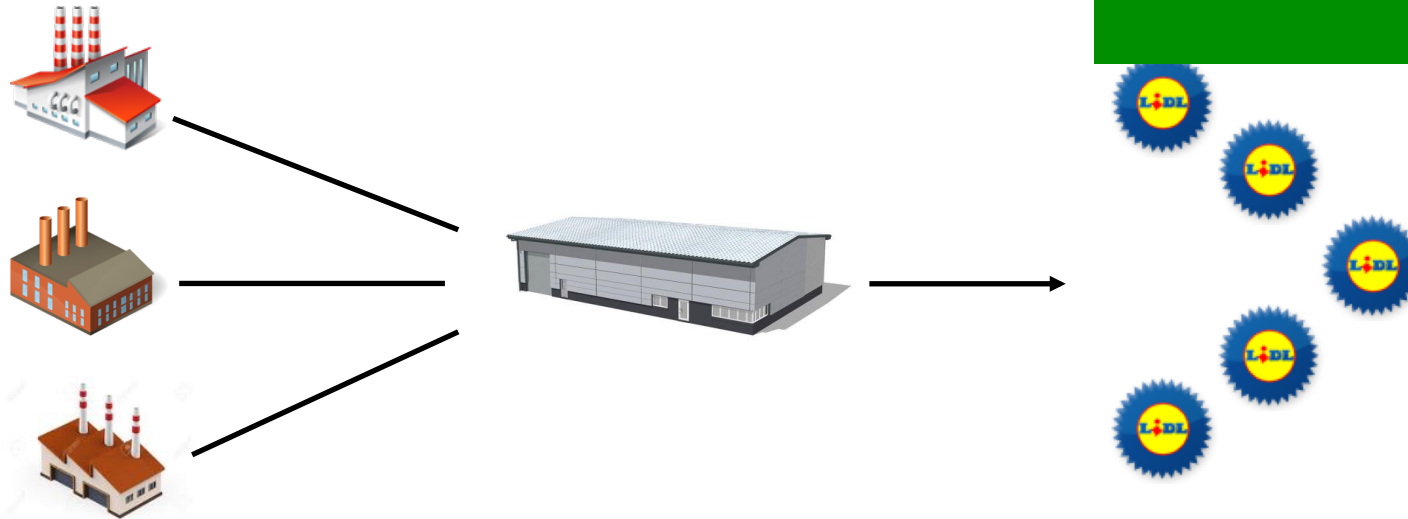
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# Triple supply, replenishment costs, s

Sample Page

Chart 2



Reduces risk, if one supplier is down, others can pick up

Reduces transport cost and lead times- different bases around country, Aldi and Lidl pick up, grouping trips

Introduces (price) competition between suppliers on same PL

## Schwarz: Lidl, Kaufland, total sales in €bn, growth 2015 - 2019

Table 2

Format	Year to February 2015	Year to February 2016	Year to February 2017	Year to February 2018	2019
<b>Lidl</b>	59.0	64.9	68.6	74.6	81.2
Growth		10.0	5.6	8.8	8.8
<b>Kaufland</b>	20.0	20.8	21.7	22.3	23.1
Growth		2.5	4.1	3.0	3.6
<b>Total</b>	<b>79.0</b>	<b>85.7</b>	<b>90.2</b>	<b>96.9</b>	<b>104.3</b>
Growth		8.1	5.3	7.4	7.6

Sample Page