Mitchell Deliverable A

ALDI Industry Analysis
Overview

ALDI is a retail supermarket chain with over 1,400 stores in the United States. The company has stores located in 32 states; most stores are located in the East Coast, Midwest, and Southeastern United States. ALDI stores have unique characteristics that allow the corporation to keep retail prices low for its customers. For example, the majority of merchandise is kept and displayed in cardboard boxes that were originally used by the suppliers to ship the products to ALDI warehouses. Other examples include the “ALDI Quarter” cart system, recycled bags, limited hours of operation, reduced inventory, credit card processing fees, and exclusive suppliers. ALDI’s low prices attract customers specifically looking for discounted rates; therefore, the majority of ALDI’s customers range from low to middle income families.

Porter’s Five Forces and ALDI

Threat of New Entrants

When examining one of Porter’s Five Forces, the threat of new entrants, it is important to take a few different factors into consideration. The threat of new entrants can be predicted by reviewing the amount of starting capital required, as well as the other established businesses that carry items similar to the business being examined. In terms of ALDI, the threat of new entrants seems to be quite low. This is due mainly to a large amount of starting capital that is required to start a retail grocery store, ALDI’s unique and differentiating business strategy, along with the other established businesses which make it harder to enter and compete in this market. ALDI’s threat of new entrants is low because there are many barriers to entry for other firms such as high capital requirements, customers’ loyalty to existing brands and economies of scale. The whole strategy that ALDI utilizes is to offer high-quality products at the lowest price, which differentiates the store from many of the competing companies. It is harder to
compete with the major businesses that carry very similar products to what ALDI does, and more for a slightly more expensive cost. This makes it clear to see that the threat of new entrants is low, given the difficulty to start up a business in this field and compete with existing businesses who are already very successful. Therefore, it is nearly impossible for any new firm to enter the market and compete with a large company like ALDI. High barriers to entry for new companies allow ALDI to prosper and continue opening new locations and bring in revenue from its current customers.

**Threat of Substitutes**

ALDI’s threat of substitute is relatively low as well due to the fact that customers have high switching costs for substituting away from ALDI. The company also has a strong and loyal customer base, which helps to secure its position in the market. It is important to note that customers do not usually have loyalty towards grocery brands and are willing to buy products from an equally conveniently located grocer; however, ALDI customers are loyal and less likely to shop at other grocers. ALDI gains this advantage due to their unique business strategy of providing customers with the cheapest prices in the market, while still selling high quality products. The business strategy Aldi has encompassed is the major differentiator of the brand. These unique practices required innovative thinking and planning, which many other companies never thought of or were able to successfully achieve. ALDI’s innovative thinking has allowed the company to sell products for the lowest cost in the market, which still producing enough profit to sustain their company and grow and prosper across the country, making Aldi a difficult company to compete with.

**Rivalry**

ALDI has a medium competition rivalry in the industry due to their low prices, low costs, and having their exclusive suppliers. However, there are many existing rivals in the industry such as Wal-Mart and Costco that follow the same strategy as ALDI, which might be a threat to the company. Competitors such as Target and Wal-Mart may also be difficult for ALDI to compete with because their one stop shop characteristic gives
them a slight advantage. Consumers who shop at the competitors may not view ALDI as their primary grocer because of the convenience they receive from shopping at stores that carry a greater variety of items. Depending on how many consumers are specifically looking for one-stop shops, ALDI may experience problems sustaining stores at certain locations. On the other hand, ALDI locations are relatively small and cheap to open up. ALDI has the advantage of being able to open up locations easily and much faster than its large competitors.

**Bargaining Power of Suppliers**

The bargaining power of suppliers is low because the majority of ALDI’s suppliers are in the food production industry, which has very uniform pricing due to its inelasticity. Moreover, the majority of ALDI’s suppliers exclusively supply to ALDI. These suppliers have been exclusively supplying products to ALDI for decades and in turn receive resources from the corporation, such as the ALDI test kitchens. Therefore, these suppliers have a low bargaining power because ALDI is their only buyer, along with the generally standard prices set within the food production industry. The set prices within the food production industry help Aldi to sustain their business strategy, as the company to accurately predict how much certain products will cost. Without the ability to accurately predict expenditures, the ALDI would find difficulty in sustaining their business, as differing and unpredictable prices would affect their business strategy, therefore impacting the company’s profitability.

**Bargaining Power of Customers**

The bargaining power of ALDI’s likely customers is low, due to the amount of customers ALDI has, the low impact each individual customer's purchase has on the store, as well the difference between ALDI and the company’s other competitors. Due to ALDI’s unique practices of supplying a single brand of each product, the company is able to provide items at an extremely low cost, much lower than many of its competitors. This trait strongly differentiates ALDI from other supermarkets, as it is difficult for ALDI customers to find the similar goods for as low of a price at a different store. Although
ALDI markets to people of all economic statuses, the company’s main customers tend to be low and middle class families. As the customers are purchasing for families or small numbers of people, their individual purchases tend to all be fairly inexpensive, which decreases each individual person's impact on the company. This group gives ALDI a large and strong customer base, which also contributes to the weakening of the customer bargaining power. The number of customers ALDI has and the small amount of purchases each individual customer makes, as well as the differentiation between ALDI and other supermarkets causes the buying power of ALDI customers to be weak. ALDI’s tactics to sell products for the least expensive amount possible provides the company with dependent and loyal customers which fuel ALDI’s ability to continue making a profit and maintain the stores that are currently open.

**Conclusion**

ALDI’s smart, money saving tactics enable the corporation to compete with the larger competitors in the supermarket industry. The company’s strong tie with exclusive suppliers aids in allowing ALDI to retail high quality products at low prices, which keeps its customers loyal. ALDI’s distinct approach works because it promotes the values of quality, sustainability, and efficiency.