ALDI—

Brief Description

Anna Albrecht opened a small grocery store in Essen, Germany in 1914. By 1948, her two sons, Karl and Theo Albrecht, had inherited the store. Six years later, the brothers opened the first self-service grocery store in Germany. Then in 1961, they established the first ALDI store, which led to ALDI being the first discounter in the world. In 1976 ALDI made its way to the US when a store was opened in Iowa, and by 2008 it was recognized around the world as a leading global discount supermarket chain. Currently it has expanded to 18 countries around the world with approximately 10,000 stores. For the future, ALDI has plans for new divisions in Florida, Texas, and California.

Industry Analysis—

Threat of New Entrants

ALDI is an incredibly efficient and low-cost company, and the threat of new entrants to compete directly with ALDI is fairly low. For a new company to compete, they would have to purchase and establish an expensive infrastructure that ALDI has perfected over the years. ALDI’s labor costs are low due to smart hours operations and because of efficient worker production. Not many shifts are required at one time due to multi-tasking, smart workers so the costs are low. ALDI has an efficient stocking system where 80 gallons of milk can be stocked at once without taking them out of the box. They have energy-efficient refrigeration and lighting and reusable signs that can be taken down manually. They also have a rent-a-cart system so no worker is needed to corral lost carts. One important factor is that ALDI has about 2,000 home labeled products meaning they are specific to ALDI. Other big retailers stock 10 times as many products meaning that their prices are higher. Furthermore, the family
owned ALDI allows for no hassle with shareholders so they can profit more by themselves. Bigger retailers and companies wishing to join the market simply can’t compete with ALDI’s efficiency and low prices. Lastly, ALDI has an extensive testing process for each product and a 100% satisfaction guarantee giving them reliability and quality that has been built. ALDI is so efficient and low cost that it can experience high-production with bigger margins. All of these factors lead to high entrance costs by rival companies, and therefore a low threat for new entrants. The threat of new entrants into the market interacts closely with supplier power. Like mentioned below, ALDI has 90% ALDI exclusive brands that continue to be cheap yet with high quality over and over. The suppliers that ALDI has have direct relationships with each other and it would be incredibly expensive for ALDI to switch to national brands. Because of these costs to switch, ALDI stays exclusive but also allows for prices and quantity that can’t be beat by other companies and competitors or new entrants.

**Supplier Power**

Shoppers at ALDI will find that 90% of their items are ALDI exclusive brands. ALDI does this because exclusive brands allow ALDI to provide the same high-quality as a national brand, without the hidden costs including marketing and advertising. Because of this, supplier power is high because there would be a cost to switch from the cheaper ALDI exclusive brands to national ones. ALDI has also recently added a limited selection of national brands because of customer feedback of their strong brand preferences. In addition, ALDI carries national brands if they are not able to produce an exclusive brand. However, national brands only consist of 10% of the items offered in ALDI stores. Suppliers are powerful because they are mostly coming from ALDI themselves. National suppliers are also powerful because of their customers say in wanting the brand and pushing to offering them in stores. Supplier power leads to a buyer-supplier relationship between the industry and the firms that provide the materials used to create products. ALDI strives to form strong, long-term partnerships with suppliers that are committed to meet quality standards and are responsive to changes in consumer needs. Due to this goal, the buyer-supplier relationship for ALDI is very strong.

**Threat of Substitutes**
As a leading global discount supermarket, ALDI definitely does not have a strong threat of substitutes like any other new supermarkets that just enter into the field. ALDI’s unique business model makes it extremely hard to copy. ALDI stores normally are smaller than other competitors but with more brand choices. This kind of In-Store lay out reduces the waste of space to place different items and also save time for both customers and workers in the stores. ALDI is able to cut the process of tagging prices, the cost of buying cashier machines and the cost of large physical stores bases on its special and convenience In-Store layout. This kind of layout improves the efficiency and also makes ALDI become more profitable. There are not many supermarket use the same kind of marketing strategy. When other competitors spend plenty of money on advertising, ALDI choices to not use advertisement in Germany. ALDI stores in Germany display newspaper that contains discount items and send direct mail to target customers and potential customers. What ALDI does directly reduce the cost of marketing. ALDI is able to use the money it saves from advertising to increase the quality of product and reduce the prices. Even though ALDI is already the pioneer of the industry, there are some competitors who also aim for low price groceries. There are some alternatives for ALDI in the market right now, like Fareway, Krogers, Costco, Save-a-Lot. These alternatives also aim for attracting families and households. But the price of ALDI can still stand out for the crowd. Personally speaking, ALDI’s marketing strategy helps it to attract customers with limited budgets, but it will lead to limited market share. I would say ALDI does not have a strong threat of Substitutes right now. But this force may grow stronger in the future when other competitors come up with marketing strategies that can achieve the low prices ALDI have.

**Buyer Power**

Buyer power is a very important aspect of ALDI’s success because it is in the retail industry. Buyer power can be separated into two key parts: Strong and Weak. Buyers are strong if there are few buyers because that means they have a larger market share. This means these few buyers will have more say and more power than if there were many buyers with less market share. Another way for buyers to have strong power is if they purchase a significant portion of
the output. The last way that buyers can have power is through the possession of credible backward integration threat. This means they can threaten to buy producing firm or rival. On the flip side, Buyer Power can be weak if producers threaten forward integration meaning that they can take over distribution/retailing. This takes the power out of the buyer’s hands as they no longer are being depended on as much. Another way that buyers can lose power is if there is significant buyer switching cost. This happens when products are not standardized and the buyer can’t switch to another product. They are forced to stay which gives power back to the producer. The third way that buyer power can be weak is if they are fragmented. When this happens, no buyer has any particular influence on product or price. The last way that buyer power can be weak is when producers supply critical portions of buyers’ inputs. The overall buyer power of ALDI is low because one of the main attractions of this chain is that they have high switching costs. When a customer sees how cheap the products at ALDI are compared to competitors, they will choose to stay at ALDI.

**Rivalry**

As ALDI stores are expanding their market in the United States they are facing many competitors in the retail industry. With companies like Walmart and Target having a large presence in the US, it would seem as if ALDI, a German based company, has no chance to thrive in the US. However, ALDI jumped from number 39 to number 16 on the National Retail Federation’s list of the top retailers in 2016. The industry for retailers has experienced great market growth from 2010 up to today, steadily increasing by about 3.5% each year, so now is a great time for ALDI to use it’s unique competitive business strategy to jump ahead of the competition. ALDI’s high switching costs allow them to keep a strong consumer base in this extremely rivalries market. Consumers are more comfortable spending all of their money at ALDI because most of the items they buy will be cheaper than anywhere else. The rivalry right now in the retail industry is high, as there are a lot of firms in the industry that have a strong presence in the market, like Wal-Mart and Target. However, the rivalry is definitely lowering for ALDI as the industry’s market growth and ALDI’s high switching costs builds a strong case for ALDI’s lack of rivalry. In the retail industry, the threat of substitutes is very high, but ALDI’s low costs are lowering this threat.
Competitive Strategy—

Cost Focus

We believe ALDI engages in the Cost Focus competitive strategy. This strategy involves an emphasis on cost-minimization within a focused market. Throughout every aspect of ALDI’s store, their primary focus is keeping costs to a minimum. ALDI focuses on lower to middle class citizens because of their cost-minimization efforts. ALDI store locations are in middle to lower class areas that additionally narrows down their typical customer. A few of the main examples of their focus to minimize costs are as follows: each store only requires 3-4 employees due to their advanced training and multi-tasking ability keeping labor costs to a minimum. 90% of the brands sold in ALDI stores are ALDI exclusive brands which does away with the hidden costs of marketing and advertising with the national brands. The very nature of the ALDI store is efficient with their energy-efficient refrigeration and lighting. They keep costs low by stocking products with high turnover rates as opposed to retail giants, which keep overhead costs to a minimum. These cost-minimizing strategies create more and more profit for ALDI which they, in turn, cycle the profit into more strategies for lowering costs.

Lidl’s Competitive Strategy

These two companies are similar because they both use Cost Focused competitive strategy. The two are also both German-based. Additionally, both companies limit employees per shift in order to reduce cost, however Lidl has been criticized of overworking these workers. Both companies also mostly carry private labels, ALDI more so than Lidl. These companies are different because Lidl is not in the United States currently. Another difference is the fact that Lidl sells more than just food. In addition, ALDI focuses more on one store within an area while Lidl opens multiple locations within one area. While both companies focus on cost-minimization, Lidl still has slightly higher prices than ALDI. Lidl and ALDI are each other's biggest competitor.